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BRITAIN'S ENTRY INTO THE EUROPEAN ECONOMIC COMMUNITY AND ITS EFFECT ON CANADA'S AGRICULTURAL EXPORTS

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FOREWORD

In the 1960s there was much apprehension and public debate in Canada about the consequences of Britain's prospective entry into the European Economic Community for Canadian exports. At the time, Britain was Canada's second most important trading partner, and many Canadian exports, along with those of other Commonwealth countries, had a longstanding preferred place in the British market. It is curious that since Britain joined the European Community in 1973, there has been so little analysis, inside or outside government, of the actual effect of this historic event on Canadian exports. This study by Bertrand Nadeau is one of the few works of this kind. It examines the effect of Britain's entry into the European Community on Canada's principal agricultural exports to Britain.

Nadeau demonstrates that Canadian misgivings about the effect of Britain's entry into the European Community were not unfounded. After 1973 the special conditions of access that Canadian agricultural exports enjoyed in the British market came to an end. Tariff preferences were lost, and Canadian exports faced the Community's common external tariffs, while competing imports into Britain from other members of the Community were admitted duty free. More serious for Canadian exports, British agriculture was brought under the Community's Common Agricultural Policy (CAP), which added further elements of protection for British farmers against import competition

from outside the Community and resulted in sizable increases in production and self-sufficiency for many British farm products. Nadeau's study tracks the consequential changes in the flow of seven principal Canadian exports to Britain: wheat and wheat flour, barley, cheese, oilseeds and oilseed products, tobacco, meat and animal feeds. The study shows that exports to Britain of many, although not all, of these products declined and that the reductions were mainly due to the operation of the CAP. In explaining these consequences for Canadian exports, the study presents a clear and useful review, from a Canadian perspective, of the objectives, structure and operation of the Community's Common Agricultural Policy.

Rod Dobell
President

April 1985

AVANT-PROPOS

Au cours des années soixante, l'entrée éventuelle de la Grande-Bretagne dans la communauté économique européenne a semé l'émoi et provoqué un vif débat sur l'avenir des exportations canadiennes. À cette époque, la Grande-Bretagne était en effet le deuxième partenaire commercial du Canada, et de nombreuses exportations canadiennes, au même titre que celles des autres membres du Commonwealth, jouissaient depuis longtemps d'un traitement préférentiel sur le marché britannique. Or, on constate avec étonnement que depuis l'adhésion de la Grande-Bretagne au Maraché commun, en 1973, les répercussions de cet événement historique sur les exportations du Canada n'ont fait l'objet que d'un très petit nombre de travaux, tant au sein du gouvernement qu'à l'extérieur. L'étude de Bertrand Nadeau est donc l'une des rares recherches consacrées à cette question. Elle examine les conséquences de l'entrée de la Grande-Bretagne dans la Communauté économique européenne sur les principales exportations agricoles canadiennes vers ce pays.

L'auteur démontre que les appréhensions du Canada n'étaient pas dénuées de tout fondement. Après 1973, l'accès privilégié dont bénéficiaient les produits agricoles canadiens sur le marché britannique fut annulé. Le Canada perdit ses tarifs de préférence et ses exportations dûrent désormais affronter le tarif extérieur commun de la Communauté, tandis que les exportations vers la Grande-Bretagne des

autres États membres étaient, au contraire, admis sans droits de douane. Chose encore plus grave pour les exportations canadiennes, l'agriculture de la Grande-Bretagne fut assujettie à la politique agricole commune de la CEE. Les agriculteurs britanniques jouirent ainsi d'une protection accrue contre les importations des pays extérieurs au marché commun, ce qui se traduisit par une hausse appréciable de la production et de l'auto-approvisionnement pour un grand nombre de produits agricoles britanniques.

L'auteur retrace les répercussions de ces changements sur le flux de sept principales exportations canadiennes vers la Grande-Bretagne : le blé et la farine de blé, l'orge, le fromage, les oléagineux et leurs sous-produits, le tabac, la viande et les aliments pour animaux. Il démontre à cet égard que les exportations vers la Grande-Bretagne d'un grand nombre, mais non de la totalité, de ces produits fléchirent et que les réductions étaient principalement attribuables à l'influence de la politique agricole commune de la CEE. En plus d'expliquer les répercussions de ce phénomème sur les exportations du Canada, cette étude présente, dans une perspective canadienne, une analyse claire et très utile des objectifs, de la structure et du fonctionnement de la politique agricole commune de la Communauté européenne.

Rod Dobell
Président

Avril 1985

THE AUTHOR

Bertrand Nadeau is a graduate in economics from the University of Sherbrooke and received his Masters degree at the Norman Paterson School of International Affairs, Carleton University, Ottawa. He was subsequently employed by Statistics Canada and by Agriculture Canada in Ottawa. At present, he is an economist with the Ministère du Commerce extérieur in the Government of Québec.

SUMMARY

The Treaty of Rome, concluded in 1957, created the European Economic Community as a customs union among Belgium, France, Germany, Italy, Luxembourg and the Netherlands. Customs tariffs and other barriers to the internal trade among "the Six" were removed, and their separate customs tariffs were replaced by common external tariffs on dutiable imports from outside the Community.

In the agricultural sector, integration was carried further. A Common Agricultural Policy (CAP) was adopted, aimed at creating a unified community market for farm products. The system was designed to achieve a harmonized price structure within the Community, greater protection of this new market against international competition, and increased self-sufficiency in food products. The operation of the CAP has involved, among other things, special, negotiated exchange rates applicable to internal trade in basic farm products, fluctuating tariffs (variable levies) on imports of basic farm products produced within the Community, and subsidy programs designed to raise incomes of Community farmers and to permit the export of surpluses at lower world prices.

These and other elements of the CAP have had adverse effects on other world exporters of agricultural products, including Canada, mainly by limiting their access to Community markets and by increasing competition in third markets from subsidized Community

exports. The operation of the CAP has given rise to continuing disputes between the Community and other exporting countries.

The negative effect of the CAP was aggravated after Britain entered the European Community in 1973, especially for Canada and other Commonwealth countries. Britain had historically been a major market for Canadian farm exports, and Canada, along with other Commonwealth countries, had enjoyed, for many products, preferential tariff access to the British market. Canada not only lost these preferences, but also faced the Community's common external tariffs while competing Community suppliers gained tariff-free access to the British market. More serious for some Canadian exports, the operation of the CAP led to substantial increases in British farm production and self-sufficiency, leaving even smaller margins for imports from non-Community sources. Britain's share of total Canadian agricultural exports fell from 19 per cent in 1965-69 to 7 per cent in 1981. The most substantial declines were in exports of barley, wheat flour, oilseeds and oilseed products, cheese and apples. Exports of wheat, tobacco, certain meat products (edible offals) and animal feeds were better maintained, but generally not at the growth rates of earlier years.

For particular exports of Canadian agricultural products, the effect of Britain's entry into the Community can be summarized as follows:

Wheat. Exports have not increased, mainly because of greater British wheat production and a decline in bread consumption. Canada has kept its share of Britain's imports because of continuing demand by the baking industry for Canadian hard wheat, used to blend with British soft wheat.

Barley. Canadian exports declined largely because preferential access to the British market was ended, Community suppliers gained duty-free access, and domestic British production increased. New competition also emerged from US corn for animal feed.

Cheese. Canadian exports to Britain almost came to a halt after Britain joined the Community, as a result of the loss of British tariff preferences, new barriers imposed by variable levies on imports from countries outside the Community, and increased British production of

cheese. Later, Canadian negotiations with the Community led to somewhat improved access to the British market, but at levels far below those of the 1960s.

Oilseeds and oilseed products. Exports of flaxseed and especially vegetable fats and oils (mainly soybean oil and cake) declined sharply after Britain joined the Community, largely because of the loss of preferential tariff access.

Tobacco. Historically, Britain has been Canada's main export market for tobacco. After Britain joined the Community, exports were fairly well maintained but have constituted a declining share of British imports. Canada lost its tariff preferences, and its exports faced the Community's common external tariff, while other suppliers were accorded duty-free access and tariff preferences.

Meat (edible offals). Canadian exports of meat consist almost entirely of edible beef and pork offals (livers, kidneys, hearts, etc.), which, unlike other meat, are not subject to variable levies and face relatively low Community tariffs. Canada has maintained its share of the British market, partly because of increased consumption in Britain and competitive Canadian prices.

Animal feeds. These consist of residues of wheat, barley and other grains. Despite the loss of British preferences, exports to Britain have increased because of high Community prices for grain and low Community tariffs on these residual products.

ABRÉGÉ

Le Traité de Rome, signé en 1957, a instituer la Communauté économique européenne comme union douanière comprenant la Belgique, la France, la République fédérale allemande, l'Italie, le Luxembourg et les Pays-Bas. Les tarifs douaniers et autres barrières au commerce interne entre les "Six" furent supprimés, tandis que les tarifs douaniers de chacun des États membres furent remplacés par un tarif extérieur commun sur les importations en provenance des pays non-membres de la Communauté.

Dans le secteur agricole, on poussa encore plus loin le processus d'intégration. À cette fin, le groupe des Six adopta une politique agricole commune dont l'objectif était de créer un marché commun unifié pour les produits de l'agriculture. Ce système fut conçu de manière à favoriser l'harmonisation des prix agricoles au sein de la CEE, améliorer la protection du marché communautaire contre la concurrence internationale et accroître la couverture des besoins en denrées alimentaires. Cette politique agricole commune se traduisit, entre autres, par l'adoption de taux de change spécifiques, établis par voie de négociation et applicables au commerce intracommunautaire des produits agricoles de base, et de tarifs fluctuants (les prélèvements variables) sur les importations des denrées agricoles de base produites au sein du Marché commun. Des programmes de subventions destinés à améliorer le revenu des agriculteurs de la CEE et à permettre

l'exportation des excédents de production aux prix moins élevés du marché mondial furent également appliqués.

L'ensemble des mesures adoptées dans le cadre de la politique agricole commune exerca une influence néfaste sur les autres exportateurs mondiaux de produits agricoles, dont le Canada, surtout du fait qu'elles limitaient leur accès aux marchés communautaires et intensifiaient la concurrence des exportations subventionnées de la CEE sur les marchés des pays tiers. L'application de la politique agricole commune a donc été une source constante de désaccord entre la Communauté européenne et les autres pays exportateurs.

Les conséquences négatives de la politique agricole commune se sont encore aggravées après l'entrée de la Grande-Bretagne dans la Communauté économique européenne en 1973, et notamment pour le Canada et les autres membres du Commonwealth. Historiquement, la Grande-Bretagne avait toujours représenté un important débouché pour les exportations agricoles canadiennes. En outre, le Canada avait toujours bénéficié, au même titre que les autres pays du Commonwealth, d'un traitement préférentiel sur le marché britannique pour un grand nombre de ses produits. Le Canada a donc non seulement perdu ses tarifs de préférence, mais il a dû encore affronter le tarif extérieur commun imposé par la Communauté européenne, tandis que les fournisseurs de la CEE jouissaient désormais d'un libre accès au marché britannique. Chose encore plus grave pour certaines exportations canadiennes, la mise en oeuvre de la politique agricole commune a fortement stimulé la production agricole britannique et accru son degré d'auto-approvisionnement. Les importations en provenance des pays extérieurs au Marché commun ont donc été davantage limitées. Ainsi, la part britannique des exportations canadiennes totales est passée de 19 pour cent en 1965-69 à 7 pour cent en 1981. Les baisses les plus notables ont eu lieu dans les exportations d'orge, de farine de blé, d'oléagineux et de leurs sous-produits, de fromage et de pommes. En revanche, les exportations de blé, de tabac, de certaines viandes de boucherie (les abats comestibles) et d'aliments pour animaux ont moins souffert, mais n'ont généralement pas connu les taux de croissance des années antérieures.

L'adhésion de la Grande-Bretagne à la Communauté européenne

produisit les effets suivants sur les exportations de denrées agricoles canadiennes :

Blé. Les exportations n'ont pas augmenté, surtout en raison de la croissance de la production britannique et de la baisse de la consommation de pain. Le Canada a toutefois conservé sa part des importations britanniques, grâce au maintien de la demande de farine de blé dur canadienne, utilisée en boulangerie industrielle pour le mélange avec la farine de blé tendre britannique.

Orge. La diminution des exportations canadiennes s'explique principalement par la suppression du traitement préférentiel, le libre accès au marché britannique accordé aux fournisseurs de la CEE et la hausse de la production britannique. La concurrence exercée par le maïs fourrager américain est également entrée en jeu.

Fromage. L'adhésion de la Grande-Bretagne au Marché commun a pratiquement mis fin aux exportations canadiennes de fromage vers ce pays, en raison de la perte des tarifs de préférence, des nouvelles barrières imposées par les prélèvements variables sur les importations des pays extérieurs à la CEE et de l'augmentation de la production britannique de fromage. Par la suite, les négociations entre le Canada et la Communauté ont quelque peu amélioré les débouchés canadiens sur le marché britannique, sans que les exportations atteignent, toutefois, leur niveau des années soixante.

Oléagineux et sous-produits. Les exportations de graine de lin et notamment de graisses végétales et d'huiles (principalement d'huile et tourteaux de soya) ont subi une nette réduction après l'entrée de la Grande-Bretagne dans le Marché commun, principalement du fait de la suppression des tarifs de préférence.

Tabac. Historiquement, la Grande-Bretagne a toujours été le principal marché d'exportation du tabac canadien. Après l'entrée de la Grande-Bretagne dans la Communauté, les exportations de tabac sont restées à peu près constantes, mais constituèrent une part réduite des importations britanniques. Le Canada a perdu ses tarifs de préférence et ses exportations ont dû affronter le tarif extérieur commun de la CEE, tandis que d'autres fournisseurs ont pu bénéficier d'un libre accès au marché britannique et d'un traitement de préférence.

Viande (Abats comestibles). Les exportations de viande du

Canada se composent presque exclusivement d'abats comestibles de boeuf et de porc (foie, rognons, coeur, etc.), qui, à l'encontre des autres viandes, ne sont pas assujettis aux prélèvements variables et affrontent les tarifs relativement bas de la CEE. Le Canada a donc conservé sa part du marché britannique, en partie du fait de l'accroissement de la consommation de ces produits en Grande-Bretagne et de la compétitivité des prix canadiens.

Aliments pour animaux. Ces derniers se composent de résidus de blé, d'orge et d'autres céréales. Malgré la perte du traitement de préférence britannique, les exportations vers la Grande-Bretagne ont augmenté en raison du prix élevé des céréales au sein du Marché commun et du bas niveau des tarifs imposés par la Communauté sur ces produits résiduels.

INTRODUCTION

Throughout the ages, the concept of making Europe one great and powerful nation has endured. When Napoleon was attempting to achieve an imperialist unification of the continent, he continually invoked the example of two forerunners, Julius Caesar and Charlemagne. Caesar had unified ancient Europe, and Charlemagne medieval Europe. From the time of the Roman conquest, however, every attempt to establish a national hegemony in Europe has failed, and such will no doubt be the fate of any future endeavour to unify Europe.

It took the devastation of the Second World War to bring the European nations to a common decision to revive the old dream, but this time without according any one nation preeminence. The threat of the economic collapse of Europe, the fear of the Soviet Union, and the challenge of the new economic strength of the United States led Western European leaders, with the support of the United States, to seek, if not a political union of Western Europe, at least an economic union.

An early step toward economic integration was the creation in 1952 of the European Coal and Steel Community, with the participation of six countries–France, Germany, Italy, Belgium, the Netherlands and Luxembourg. In 1957, the Treaty of Rome was concluded among these six countries. The treaty created the European Economic Community

(EEC), a customs union permitting the free movement of all goods among the countries of the Community without customs duties or other impediments, the protection of these countries by a common external tariff, and the establishment of a commercial policy. It laid the groundwork for a common agricultural policy and for co-ordinated economic, social and regional policies, including transport issues. There is a great difference, however, between mechanical measures (the free movement of goods and people) and the creation of a true economic community, with standardization of legal, social and fiscal regulations and co-ordination of other policies.

Only the Common Agricultural Policy (CAP) of the EEC constitutes any significant movement in this direction, and for this reason, it stands as the Community's proudest accomplishment. The CAP was inaugurated in 1962, but did not become fully operational until 1968. During the negotiations on the structuring of the EEC, few topics aroused as much controversy as agriculture. A major crisis arose in July 1965 when France manifested its dissatisfaction with the progress of discussions on the financing of the agricultural policy by withdrawing from the negotiations. The incident came to be referred to as 'the empty chair.'

Although in general the establishment of the Community was welcomed by the United States on political grounds, the protectionist elements of the Common Agricultural Policy soon became a cause for US concern.

For economic, political and, some might even say, psychological reasons, Britain declined an invitation to participate in the negotiations leading to the creation of the Common Market. After the signing of the Treaty of Rome, Britain took the lead in pressing for the creation of a wider free-trade area for non-agricultural products among all the countries of Western Europe. When this initiative failed, Britain joined with six countries (Sweden, Norway, Denmark, Switzerland, Austria and Portugal) in 1959 to found the European Free Trade Association (EFTA), an association much looser than the European Community: it lacked a common external tariff, the common institutions of the Community, a common commercial policy, and any form of common agricultural policy. Britain, however, continued efforts to conclude satisfactory

arrangements for its participation in the Community, but after two years of negotiations to obtain the required unanimous agreement of the Six, President de Gaulle vetoed Britain's entry. In 1967, Britain renewed its application, but it was not until after de Gaulle's death that France gave consent. The Treaty of Accession, signed on 22 January 1971 included two other countries, Denmark and Ireland. These countries joined the Community on 1 February 1973, and were admitted to full membership in 1977.

Among the difficulties in negotiations for Britain's entry into the Community was that as a member of the Community, it would no longer be able to maintain longstanding preferential trade ties with the Commonwealth countries. Other difficulties were Britain's liberal policy on low-priced food imports and its own agricultural support programs, which were based on deficiency payments to farmers rather than on the Community's system of price supports.

As far as Canada was concerned, the maintenance of close ties with Britain and the Commonwealth had been a feature of its foreign policy for two hundred years. Even in 1947, during the negotiations leading to the General Agreement on Tariffs and Trade (GATT), while vigorously upholding the principle of non-discrimination in international trade, Canada nevertheless took care to maintain its preferences in the British and other Commonwealth markets. Throughout the long period of negotiations preceding Britain's entry into the Community, Canada protested strongly against the prospective loss of these preferences.

Britain has always been one of Canada's principal trading partners. Although in 1970, sales to Britain accounted for only 9 per cent of total Canadian exports, the percentage was considerably higher for some of the eastern provinces. In Quebec, for example, it reached about 13 per cent (BSQ, 1980). At that time, moreover, Britain was still Canada's second largest trading partner and was an essential outlet for certain commodities. Ninety-five per cent of Canadian cheese exports, for example, went to the British market.

In concrete terms, Britain's entry into the Common Market marked the end of the special trade relations that had existed between Canada and the mother country. This relationship had taken the form of dutyfree entry of most Canadian goods to the United Kingdom and a

system of preferences applicable to Canadian products. Whereas about 95 per cent of Canadian exports had entered Britain duty free (Matthews, 1972:3), since 1973 they have faced the common external tariffs (CET) of the EEC, while the countries in the Community have enjoyed free access. Britain's membership in the European Community, therefore, not only brought a gradual end to these two privileges but also created favourable conditions for exporters in the other member countries.

The situation was similar for Canadian agricultural exports to Britain. European agriculture, like that in most industrialized countries today, is subject to a protectionist policy of control and regulation designed to ensure income stability for producers and for the rural areas that depend on farming. Although many countries outside the EEC accuse the CAP of being more protectionist than any agricultural policy in existence elsewhere, most specialists within the Community vehemently deny that such is the case. The purpose of this study is certainly not to reopen this old argument, but merely to show the effect the CAP may have had on Canadian exports. Indeed, there is no doubt that the substantial drop in Canadian agricultural shipments to Britain is largely, although not entirely, attributable to Britain's entry into the Community, and thus in large measure to the CAP and its immediate and long-term effects on trade and production. Canadian agricultural commodities no longer enjoy the ease of access they had before 1973, but more important, Britain's self-sufficiency in many farm products has dramatically increased since it became a participant in the CAP. Whether this increased self-sufficiency is attributable entirely to the CAP is open to debate. as is the extent to which it is attributable to the high prices and protection associated with the CAP or rather to the economies of scale and the modernization of British agriculture within the framework of the CAP.

These are some of the questions that will be examined in the course of this study, though we cannot claim that any certain or definitive answers will result. We will see in the next chapter that even with the aid of intensive studies, it is not easy to answer such questions.

Speaking only of the tariff changes that followed Britain's entry into the EEC, suffice it to say that their effects varied, depending

often entirely on the circumstances applicable to each commodity. In some instances the British preferential tariff was the same as that in effect for non-Commonwealth countries (both often being equivalent to zero), so that the situation remained unchanged. In other instances the tariff actually increased, but the special nature or quality of the Canadian product (such as hard wheat) made the tariff change effectively inoperative in the short run. On a number of occasions, moreover, arrangements were made (as for cheese) to lessen the unfavourable effect of the tariff change on exports to Britain from Commonwealth countries. In most instances, however, there was a tariff increase and a loss of preference. As the foregoing suggests, the effects of Britain's entry varied according to the commodities involved; almost every commodity constituted a special case.

In addition to the tariff changes, the EEC also concluded preferential agreements with other countries, including the Mediterranean countries, those covered by the Lomé Convention, and those covered by the Generalized System of Preferences (GSP) for products such as tobacco and oilseeds. These agreements also affected the special trade relations that had existed between Canada and Britain.

Other factors in addition to the enlargement of the EEC may well have affected the pattern of Canadian exports to Britain. Among those that undoubtedly had a significant influence were poor harvests in Europe and in Canada, fluctuations in exchange rates between Britain and Canada, certain developments in Canadian agricultural policy, and the changing tastes of British consumers. Moreover, during the 1970s, the rate of growth of Britain's economy and per capita income was appreciably below growth rates in most Western European countries, in Japan, in the United States and in Canada. All such variables must be taken into account in a comprehensive analysis of the situation.

The purpose of this study is to analyse developments in Canada's principal exports to Britain since the latter's entry into the Common Market and to identify the main factors that explain these developments. The study will not, however, attempt to assess the quantitative effect of Britain's entry on Canadian agricultural exports, though it may provide a frame of reference for anyone wishing to

system of preferences applicable to Canadian products. Whereas about 95 per cent of Canadian exports had entered Britain duty free (Matthews, 1972:3), since 1973 they have faced the common external tariffs (CET) of the EEC, while the countries in the Community have enjoyed free access. Britain's membership in the European Community, therefore, not only brought a gradual end to these two privileges but also created favourable conditions for exporters in the other member countries.

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often entirely on the circumstances applicable to each commodity. In some instances the British preferential tariff was the same as that in effect for non-Commonwealth countries (both often being equivalent to zero), so that the situation remained unchanged. In other instances the tariff actually increased, but the special nature or quality of the Canadian product (such as hard wheat) made the tariff change effectively inoperative in the short run. On a number of occasions, moreover, arrangements were made (as for cheese) to lessen the unfavourable effect of the tariff change on exports to Britain from Commonwealth countries. In most instances, however, there was a tariff increase and a loss of preference. As the foregoing suggests, the effects of Britain's entry varied according to the commodities involved; almost every commodity constituted a special case.

In addition to the tariff changes, the EEC also concluded preferential agreements with other countries, including the Mediterranean countries, those covered by the Lomé Convention, and those covered by the Generalized System of Preferences (GSP) for products such as tobacco and oilseeds. These agreements also affected the special trade relations that had existed between Canada and Britain.

Other factors in addition to the enlargement of the EEC may well have affected the pattern of Canadian exports to Britain. Among those that undoubtedly had a significant influence were poor harvests in Europe and in Canada, fluctuations in exchange rates between Britain and Canada, certain developments in Canadian agricultural policy, and the changing tastes of British consumers. Moreover, during the 1970s, the rate of growth of Britain's economy and per capita income was appreciably below growth rates in most Western European countries, in Japan, in the United States and in Canada. All such variables must be taken into account in a comprehensive analysis of the situation.

The purpose of this study is to analyse developments in Canada's principal exports to Britain since the latter's entry into the Common Market and to identify the main factors that explain these developments. The study will not, however, attempt to assess the quantitative effect of Britain's entry on Canadian agricultural exports, though it may provide a frame of reference for anyone wishing to

undertake such an analysis. It will be limited strictly to: 1) describing the evolving pattern of Canadian agricultural exports to Britain, 2) identifying and analysing the variables that appear to have had the greatest effect on this pattern, and 3) analysing the dynamics of these variables.

To this end, the methodology to be used is described and discussed in chapter 1. Chapters 2 and 3 address the nature of Canadian agricultural exports to Britain and the main variables that govern these exports. Chapter 4 focuses on trends in Canada's principal agricultural exports to Britain since 1970.

I: METHODOLOGY: THEORIES OF THE CUSTOMS UNION AND OF THE EFFECTS OF THE ENLARGEMENT OF THE EEC

When the United Kingdom (UK) joined the European Economic Community (EEC) in 1973, it was generally accepted that the effect on Canadian exports would be considerable. The adoption of the Common Agricultural Policy (CAP) and the loss of the British preferential tariff could not be other than detrimental to shipments from Commonwealth countries. Most analysts believed, however, that these unfavourable effects would be only temporary, since the enlargement of the EEC was expected to stimulate a more vigourous growth of the British economy, which in turn would generate increased demand for Canadian imports. As it turned out, the growth of the Britain's gross national product (GNP) was significantly less than forecast. In the period 1969-79, it increased an average of only 2.2 per cent a year, in comparison with 3.3 per cent for the Community of Nine (including the United Kingdom). Britain's GNP, in fact, reflected the lowest rate of growth of the Nine during this period (Eurostat, 1981: 28).

It is widely acknowledged also that the continued efforts of the European countries to form an economic union were motivated primarily by political considerations, including the desire to preserve their independence in relation to both the Soviet bloc and the United States. If there were equally compelling, purely economic reasons, however, what were they?

The notion that a customs union promotes economic growth is

based on the economic theory that free trade is better than a world in which each country protects itself by various kinds of trade barriers. While classical economists have admitted that the world in general would be better off with the adoption of free trade, they have not gone so far as to suggest that every country would benefit. Indeed, some would find themselves at a considerable disadvantage, and this being the case, the customs union (a limited form of free trade) might prove one of the few valid solutions for many of them. Even a customs union, however, might not necessarily work to the advantage of all the member countries.

From these premises, there immediately arise several important questions:

- Once a free-trade area such as the Community has been established, what are the effects on productivity in this area?
- Does the world economy benefit, or is it adversely affected when a group of countries trade freely among themselves while discriminating against third countries?
- What are the probable effects of a customs union (such as the EEC) on particular sectors (such as agriculture), and on third countries (such as the Commonwealth countries)?

The economic integration achieved through a customs union implies that there will be no tariffs between the member countries and a common tariff on goods entering the union from outside. In fact, however, the Community is more than a customs union; it is closer to a common market. This implies that there is also circulation of the factors of production—labour, capital, businesses—within this customs union. The term 'common market' is itself inadequate to describe the economic implications of the Treaty of Rome. When the Treaty speaks of common policy for transport and agriculture and of co-ordination of fiscal policies between member states, it extends the Community beyond the common market in the direction of an economic union where there is a degree of co-ordination of economic policies, as is the case in the Common Agricultural Policy.

In the final analysis, the Community constitutes an economic entity providing varying levels of common protection against imports from third countries. Such a trading area has the obvious advantage of

offering greater potential for large-scale production than would otherwise be the case, as well as the prospect of economic gain in the form of an increased growth rate.

In both the agricultural and industrial sectors, these gains may stem from different sources (Robson, 1972: 10):

- increased production resulting from specialization
- increased production resulting from a better use of economies of scale
- gains achieved through improved terms of trade with third countries
- gains resulting from structural changes necessitated by integration, which have affected the quantity and quality of inputs such as labour and capital.

These gains mean increased output and increased income, enabling the population of the union to increase consumption, not only of domestic goods and services but of imports from third countries. In making any sort of assessment of the effect the Common Market has had on third countries, therefore, it must be borne in mind that while some imports from these countries, such as wheat, barley and cheese, have in the case of Britain declined, others have increased owing to the positive effects of integration on economic growth and consequently on demand for such imports as animal feeds, fruits and vegetables.

A number of studies have been carried out to determine whether the world economy in general has suffered from the economic integration of the countries within the EEC, particularly in light of the barriers erected by the Community against imports from third countries. Viner (Grubel, 1977: 586) suggested that a customs union acts upon trade in two ways: it has a stimulative effect (trade creation), and it alters some trading patterns (trade diversion). If more trade is created than is diverted (or destroyed), the customs union is contributing to the 'welfare' of the overall world economy.

There have been numerous efforts to estimate the extent to which trade has been created or diverted as a result of the establishment of the EEC. The simplest studies have been conducted within the framework of the theory of partial equilibrium, in which emphasis is placed on trade flows rather than on estimates of changes in welfare,

the indicator of which is usually the economic growth rate (Grubel, 1977: 582-625). In the case of Britain's entry into the EEC, for example, the essential approach to estimating trade diversion in agricultural products would be to check whether or not the share of imports from Canada in the total consumption of agricultural products in Britain declined after the Britain joined the EEC.

In simple studies of this kind, it would be assumed that in the absence of the customs union, this share would remain constant; and that if it has declined, it is because trade has been diverted. Creation of agricultural trade in this model would be estimated by assessing the extent to which imports from other member countries in the Community have increased as a proportion of total consumption of agricultural products in Britain.

More sophisticated studies would adopt a different approach in assessing the effect the enlargement of the Community has had on Canadian exports of agricultural products to Britain. These studies would take into account the fact that the share of the exporting country (Canada) in the total supply of the importing country (Britain) that had just joined a new economic association (EEC) would not necessarily have remained the same as it was at the time of the enlargement. For example, to assess what the share of Canadian agricultural products in Britain's supply would have been if Britain had not joined the EEC, an analysis would be made of what had happened to the share of Canadian exports in a third country that was not a member of any customs union during the reference period, for instance, the United States. The trade diversion would be estimated as being equal to the value of actual trade minus what its value would have been if the expected share had been achieved, based on Canada's competitiveness in the third country. Finally, this type of model could be further refined to take into account the fact that the estimated share might be affected by changes in elasticity of demand in relation to income.

Grubel has expressed the view (1977: 589) that, in general, none of these empirical studies estimating the value of trade diversion and trade creation in the EEC have shown conclusively that there has been more diversion than creation. Is this true as well for agricultural products? It is not the purpose of this study to reach any conclusion on

this point; its primary aim is to describe and explain as far as possible the evolution of Canadian agricultural exports to Britain, leaving to others the task of analysing the quantitative effect Britain's joining the EEC has had on these exports.

There is no doubt that for the majority of agricultural products, the share of Canadian exports in British consumption has declined since the enlargement of the EEC; this is abundantly clear from most of the tables in chapter 4. The main reason for this development is undoubtedly the increased protection provided by the CAP with respect to third countries compared with that in effect in Britain before 1973. The direct and indirect consequences can be seen in the replacement of Canadian products with those from other members of the EEC and particularly in Britain's increased self-sufficiency in a range of agricultural products.

This analysis is not intended to produce a magic figure showing us how much Canada has lost, or to what extent the CAP may have damaged Canadian exports on the British market. The risks in such an analysis are obvious. Exports might have dropped even if Britain had not joined the EEC since, as we will see, this trend had been well under way since the mid-1960s. Perhaps too, without the CAP, Britain would have adopted another equally protectionist policy, since inflation and the instability of food prices throughout the world would have forced it to abandon its comparatively liberal import policy. Without knowing what would have happened without the CAP, it is difficult, if not impossible, to arrive at valid results, short of operating with hypotheses about the alternative scenario, which are of course unverifiable.

The second reason it would be unproductive to attempt to produce a figure showing how much Canada has lost since Britain joined the EEC is that in addition to not knowing what would have happened without the CAP, it would be difficult to assess what really has happened with the CAP. Indeed, assessing the degree of protection for the majority of Community products is a formidable task. Most of them are subject to non-tariff barriers known as variable levies, which in some cases may change every day. According to Tangermann (1982: 15), a specialist in this area at the University of Göttingen, little research has been done on the quantitative effects of the CAP on world agricultural trade. He

knows of no study that has approached the problem systematically, using chronological series of data to estimate the rate of protection afforded by the CAP on each product.

In his view, the best indicator of the rate of protection of agriculture in the EEC would be a time series based on the effective and nominal rate of protection, which would take into account all the domestic and trade policies of the CAP. This is to some extent what Cathy L. Jabara and Alan S. Brigida attempted to do in their article (1980) entitled "Variable Levies: Barriers to Grain Imports in France, the Netherlands, Federal Republic of Germany and United Kingdom." They calculated for each of these countries the nominal CAP rate of protection for wheat, barley, corn, oats and rye for the period 1970-78. There have, unfortunately, been very few studies of this kind; the results of those that exist are set out in Table 4.1 in chapter 4.

Because these series of data are difficult to produce owing to the complexity of the factors to be considered and the scarcity of information pertaining to them, Tangermann (1982: 15) proposes another method of assessment, which is much more elementary, though considerably less precise. This method consists simply of calculating the percentage of CAP protection for each product subject to the variable levy, by taking the ratio of the threshold price (which includes the variable levy) to the lowest world price offered at the port of entry to the Community (Rotterdam). He realizes that this method is quite imprecise in that it does not take into account such factors as the effect of tariffs on imports of raw materials or the existence of monetary compensatory amounts (which we will discuss later).

In contrast to the policies in most countries outside the EEC, including Canada and the United States, domestic subsidies for production or consumption are a comparatively minor item in the CAP.[1] They would therefore appear to be an appropriate and reliable indicator of the direction of changes in the nominal rate of protection. This method, however, will not be used in this study, since it involves a far more complex calculation than the simplicity of the principle might suggest. For most of the products involved, both the variable levy and the world price change almost daily. It is difficult to obtain all this data, and even more difficult to trace previously constructed series if

they ever existed.

Another method suggested by Tangermann to establish the level of protection is based on the hypothesis that a high level of protection in the Community in relation to other industrialized countries should be reflected in a continuing increase in the EEC share of production coupled with a steady decline in the EEC share of consumption in comparison with the other countries concerned. Such a pattern would indicate that the CAP is more protectionist. In Tangermann's view, this method would have the advantage of calculating not only the absolute protection level of the CAP, but its relative level, in that if the absolute protection level of the CAP remains stable while that of other countries declines, it must be concluded that the CAP is becoming increasingly protectionist in relative terms. This method would not be appropriate for our purposes, however, first because it is much too imprecise for this type of analysis, and second, because the CAP protection level is not necessarily the same as that of Britain owing to the interaction of exchange rates and monetary compensatory amounts.

According to Pelkmans (1980), moreover, these models based on the neo-classical theory of partial equilibrium, even when followed to the letter, can sometimes be misleading. One of the chief reasons is their overly static approach, which excludes such dynamics as rates of economic growth, structural changes in the economy, foreign investment that counterbalances the protectionist effect of tariff barriers, and so on. In addition, the theory itself appears somewhat deficient in that it is based on the theory of the customs union rather than on that of the common market, which takes into account both negative and positive integration policies.[2]

Mayes (1978: 2) suggests that a model to assess the effect of economic integration on trade should properly take into account the following variables:

- the economic activity prevailing in the exporting country (Canada), such as changing patterns in agricultural production and government assistance to exports
- the economic activity prevailing in the importing country (Britain), such as growth of the agricultural sector, growth of per capita income, population growth, and growth of self-sufficiency

in the agricultural sector

- the economic activity prevailing in third countries, such as EEC members and the United States
- specific features of the trade prevailing between the countries concerned, such as loss of preferential tariff, variable levies, customs tariffs, transport costs, Generalized System of Preferences, bilateral agreements with members of the European Free Trade Association and with certain Mediterranean countries, and agreements with African, Caribbean and Pacific countries.

An attempt will be made in this study to incorporate these variables in an analysis of the evolution of Canada's main agricultural exports to Britain. The study will, therefore, be primarily analytical and will endeavour to describe how Canadian exports to Britain have developed and to identify the particular variables that have influenced this development. For the reasons already given, no attempt will be made to determine what would have happened had the CAP not been adopted.

Chapter 2 will address the first variable, and chapter 3 will consider the other three. Finally, these four broad parameters will be used simultaneously in chapter 4, which will examine product by product the principal Canadian exports to Britain.

2: CANADA AS AN EXPORTER OF AGRICULTURAL PRODUCTS

Canada's Performance

From 1951 to 1980, Canada was more successful than the United States in maintaining its position in world exports of all kinds. Canada's total export share fell from 4.9 to 3.2 per cent, compared with a decline of 17.9 to 10.9 per cent for the United States. Canada's share of world exports of agricultural products declined, however, from 3.7 per cent in the years 1951-55 to 2.9 per cent in 1980, while that of the United States, Canada's closest competitor, rose from 12.4 to 18.7. Canada has thus experienced a considerable drop in the volume of its overall agricultural exports in comparison with its North American neighbour (Agriculture Canada, 1981b). The decline in Canadian competitiveness with the United States assumed more significance after 1973, when Canada lost the preferential margin for such items as barley and oilseed products in the UK market. It is important to bear in mind, therefore, that an analysis of Canadian agricultural exports to Britain must take into account not only the variables directly linked to its entry into the European Community, but also conditions prevailing in Canada.

Canadian agricultural exports comprise mainly grains, oilseeds and oilseed products. Wheat alone still makes up half of all agricultural exports (Agriculture Canada, 1982: 21). Canada has always been able to remain competitive on international markets in wheat and oilseeds. However, for most agricultural commodities with a greater value-added

factor, to mention only meat and oilseed products, such has unfortunately not been the case. This situation now seems to be improving, as Canada's position on the lucrative Japanese pork market indicates.

Reasons for the poor performance of Canadian agricultural exports in comparison with those of the United States include: government policies oriented more toward the needs of the domestic market than toward export development, industries operating on too small a scale, a lack of initiative among Canadian businessmen toward foreign markets, a lack of co-operation between the federal and provincial governments, marketing boards that, in attempting to stabilize production, appear to prevent the accumulation of exportable surpluses, an unwillingness on the part of multinational companies operating in Canada to focus on international markets, and a lack of scientific research in this field.

While many factors may have hindered export development, others have undoubtedly had a positive effect, for example, the decline of the Canadian dollar against the main foreign currencies, which continued through the 1970s and came to an end (except for the US dollar) in 1981. Although this devaluation may have pushed up production costs, given that many inputs such as herbicides and machinery are imported, these adverse effects must have been amply offset by increased exports resulting from the greater competitiveness of Canadian agricultural products on international markets. In addition, the most recent GATT negotiations (the Tokyo Round), which ended in 1979, favoured, and will no doubt further benefit, Canadian agricultural trade through lower tariff barriers. It is true that non-tariff barriers still exist, for example, the variable levies in effect in the EEC. These protect for all practical purposes about 70 per cent of the Community's agricultural production, but Canada has nevertheless been able to gain access to other markets, particularly in the United States, and even in the EEC for some products.

In line with the new Canadian agricultural policy announced in "Challenge for Growth" (Agriculture Canada, 1981a), the federal government will henceforth be placing greater emphasis on an expansionist trade policy aimed at increasing agricultural exports while

developing domestic production. One of the favoured instruments of this policy could well be 'Canagrex,' a government agency established in 1983 with a mandate to promote Canadian exports, mainly by maximizing value added in agriculture and encouraging a long-term approach to trade.

Unlike the EEC, Canada does not provide direct subsidies for exports, except for a very few products such as powdered milk, nor is consideration being given to such subsidies, as has been the case in the United States for some time. The federal government has thus far intervened only indirectly in exports.

Its principal support mechanisms, in fact, are designed only to maintain producers' incomes by regulating production or by stabilizing the selling prices of agricultural products. The Agricultural Stabilization Board, for example, is empowered to stabilize prices of cattle, hogs, sheep, industrial milk and cream, corn, soybeans, oats and barley by deficiency payments to farmers. The amount of these payments is determined by taking 90 per cent of the previous five-year average price and adjusting further by an index reflecting the changes in the production cost of the commodity. Similarly, the Canadian Livestock Feed Board subsidizes the transport of Prairie grain to livestock producers in the East and in British Columbia. In addition to these agencies, which pay direct subsidies, others achieve greater stability of prices by regulating production or marketing, or both, such as the Canadian Wheat Board, the Canadian Dairy Commission and the farm products stabilization boards (Menzie, 1980: 15-22).

The provincial governments in turn sometimes provide a type of income support for their farmers, one example being Quebec's farm income stabilization insurance to which government and producers contribute equally. Some provinces even have interest rate assistance programs available for medium- and long-term loans to farmers.

In summary, until quite recently, there have not been in Canada any actual policies of direct support for agricultural exports, nor has there been any real willingness on the part of governments to adopt such policies.

Canadian Agricultural Exports to Britain

Western Europe has traditionally been a net importer of agricultural products, and North America has been a net exporter as well as one of Europe's principal suppliers. At the end of the Second World War, because of the debilitated state of European agriculture, food shortages and rationing were widespread, and supplies from North America were needed to relieve the situation. With the postwar recovery and the establishment of the CAP, however, the Community's reliance on imported agricultural products to meet its needs steadily diminished. The EEC became increasingly successful in producing its own feed grains for the production of meat and dairy products. By 1980, virtually the only agricultural products being imported were those that could not be grown in sufficient quantity in the European climate, such as hard wheat, corn, oilseeds and tropical products. Nevertheless, the EEC remains the largest importer of agricultural products in the world today, mainly because of its imports from the tropics (Tangermann, 1979: 213-214).

Table 2.1 gives an idea of the volume of the Community's agricultural trade in 1971. We see that 14.7 per cent of total imports by the Community of Six consisted essentially of agricultural products; for the United Kingdom, this figure was over 22 per cent. The higher proportion registered by Britain is perhaps not unrelated to the more liberal import policy that country has always followed in comparison with the other members of the Community. The fact that 6.2 per cent of Britain's total agricultural imports came from Canada, as compared with only 2.3 per cent of the EEC total, can be attributed to the special trade links Britain maintained with Commonwealth countries before it joined the EEC, through the British preferential tariff.

Of total Canadian agricultural exports during the period 1965-69, 19 per cent went to the United Kingdom, 32 per cent to the countries that were to form the Community of Nine, and 18 per cent to the United States (calculations based on Table I of the Appendix). By 1981, however, these percentages had declined to 7, 16 and 14 respectively. The decline in exports to the United States can be attributed to the remarkable increase in Canadian agricultural exports to other countries, such as Japan, the USSR and China, but this

TABLE 2.1: Distribution of UK and EEC Imports in 1971

	United Kingdom		EEC (6)	
	$000,000	%	$000,000	%
Total imports				
From all countries	23,944	100.0	99,071	100.0
From Canada	1,511	6.3	1,211	1.2
Agricultural imports				
From all countries	5,304	22.2	14,566	14.7
From Canada	326	6.2	338	2.3

Source: Statistics Canada, Catalogue No. 65-501.

development does not in itself explain the very marked decline in exports to the EEC. Indeed, it is difficult to explain why during this same period the value of total Canadian agricultural exports rose by 481 per cent, exports to the United States by 360 per cent, and exports to Japan by 725 per cent, whereas the value of exports to Britain and to the Community of Nine increased by only 112 and 184 per cent respectively (calculations based on Table I of the Appendix).

These figures alone would appear to be clear evidence that the CAP has had much to do with the decline in Canadian exports of agricultural products to the EEC and to Britain. In light of the wide divergence between the rates of increase of Canadian agricultural exports to the EEC on the one hand and those to Canada's other major trading partners on the other, the conclusion seems inescapable that Canada's poor performance on the Community market cannot be explained by such purely circumstantial factors as fluctuating exchange rates or transport costs, but is attributable to a deliberate policy or at least to special circumstances that have forced the Community to restrict its imports from third countries, including

Canada. In brief, the explanation of the slow growth of Canada's agricultural exports to Britain must be sought first and foremost in the CAP.

To conclude this chapter, we may say that the value of Canadian agricultural exports to Britain was $618 million in 1981, compared with $280 million in 1972, and that during this period, they consisted mainly of grains (wheat and barley), oilseeds (flaxseed, soybeans), oilseed products (soybean and rapeseed oilcakes, soybean oil), animal feeds (pelleted screenings), fruit (apples), vegetables (dried peas and beans), tobacco, cheddar cheese, meats (edible offals) and other animal products (tallow). (See Tables II and III of Appendix.) The only commodities to reflect significant growth in both value and quantity were hard wheat, animal feeds, other animal products, vegetables and tobacco. This will be discussed in greater detail in chapter 4. We should add that the products exported to Britain are substantially the same as those exported to the EEC (Agriculture Canada, 1982b).

3. THE CAP AND ITS PROTECTIVE MECHANISMS

A variety of arguments have been employed in the countries of the industrialized world to justify government aid to agriculture. It has been maintained, for example, that agriculture, and the farm family in particular, is one of the most important sectors of our society and must consequently be respected and safeguarded. It has been pointed out that agriculture cannot protect itself against such natural phenomena as floods, drought and frost, to which other sectors of the economy are not exposed. Because of these natural phenomena, agricultural production is unusually subject to annual variation. With uncertainty and inelastic demand, agricultural prices are inherently unstable, resulting in special concerns about incomes and welfare in the farm sector. Agriculture has been regarded, moreover, as the mainspring of the economy, to the extent that agricultural prosperity is a prerequisite to the prosperity of the economy as a whole.

There have also been other, purely economic arguments put forward to justify government intervention in the agricultural sector. According to one of these, the combined effect of an inelastic demand for agricultural products, rapid technological progress, slow growth of demand and the relative immobility of agricultural resources leads to surpluses and to a downward trend in agricultural prices; farmers have accordingly been forced to assume a greater share of the costs of economic progress and have been left with incomes considerably lower

than those enjoyed by workers in other sectors of the economy. A second argument is that agriculture remains the last stronghold of perfect competition in an economy that has become relatively noncompetitive; farmers, who for the most part are competing with one another through the operation of small family businesses, are ill-equipped to defend themselves against the large companies that supply their inputs on the one hand and that buy their products on the other. Caught between two oligopolistic sectors, farmers have no control whatever over either the purchase price of their raw materials or the selling price of their products, hence the need for government aid to compensate for an unfavourable trading position.

There is thus nothing new in the fact that the member countries of the EEC, like other industrialized countries, have adopted special policies and programs to support the agricultural sector. What is new in Europe is the importance attached to this sector by the Community, in comparison with other countries of the western world, and the form that government intervention has taken in the Community. The Community's agricultural policy goes beyond mere socio-economic measures; it is the driving force, the pillar, the sine qua non of European integration. Without the CAP, France would never have agreed to participate in a market that provided free trade in industrial goods. Since food prices have an effect on industrial wages, moreover, free trade in industrial products implied, for all practical purposes, common agricultural prices in order to avoid competitive imbalances between the countries (Swann, 1972: 81-122). The CAP has always been the cornerstone of the Community. It has led to the establishment of a whole institutional structure for the Common Market, including the development in 1971 of the European currency unit (ECU).

Another feature of this agricultural policy that sets it apart from any other is its focus on self-sufficiency wherever possible. It is in this area that it continues to incur the greatest criticism, particularly when self-sufficiency is translated into chronic surpluses. But what, in fact, is the CAP? Its main elements are summarized in the following sections.

The Objectives of the CAP

The Treaty of Rome, as concluded in March 1957, assigned five general objectives to the Common Agricultural Policy: to increase agricultural productivity, to ensure a fair standard of living for the agricultural community, to stabilize markets, to ensure the availability of supplies, and to ensure reasonable prices for consumers. These objectives were given more precise form in July 1968 by the Conference of Stresa: the structures of European agriculture were to be reshaped with a view to becoming competitive but without detriment to the family character of farming operations; agricultural prices, which were to be progressively standardized in the six countries and maintained above world prices, should ensure an adequate return without encouraging overproduction; the Common Agricultural Policy could not be autarkical, but should be protected against outside competition.

The Principles of the CAP

With a view toward achieving these objectives as effectively as possible, the European Economic Commission submitted to the Council of Ministers in 1960 its first proposals for a common agricultural policy. In December of that year, the basis upon which European agriculture would be organized was established by the Council and expressed in the three main principles of the Common Agricultural Policy: common prices and a unified market, Community preference, and financial solidarity.

A unified market makes possible the free movement of commodities among member states without customs duties, taxes or subsidies prejudicial to competition, and necessitates the establishment of common prices, the co-ordination of health and veterinary regulations, and stable currency equivalents.

The Community preference protects the single market from cheap imports and from fluctuations in the world market. When world market prices are lower than those in the Community, a variable tax or 'levy' raises the prices of products purchased from third countries to the level of the common prices. When the common prices are below world prices, the system operates in reverse to protect European consumers by discouraging exports.

Financial solidarity is represented in the European Agricultural Guidance and Guarantee Fund (usually referred to by its French abbreviation, FEOGA). This is an essential instrument of the Common Agricultural Policy, for which it is the funding agency. As its name suggests, the FEOGA has two sections, guarantee and guidance. The guarantee section finances public expenditures arising from the setting up of the common agricultural market organizations, including, on the one hand, measures to regulate the agricultural markets in the Community and, on the other, refunds or restitutions applicable to exports to third countries, which facilitate the sale of European agricultural products on the world market. These refunds cover the differences between prices on the Community market and world prices. The guidance section in turn participates in the financing of the common policy of improving the structures of agriculture in the member countries.

The fact that the FEOGA alone absorbs two-thirds of the total budget of the EEC is an indication of the importance accorded to agriculture in the European integration process (Pearce, 1981: 103). The financing of the CAP has always been a very contentious issue among the member countries. This was particularly true in 1962 at the time of the initial negotiations on Britain's admission to the Common Market, and also in 1965 when discussions were taking place on the method of financing the FEOGA. France was so discontent that it withdrew its representation in Brussels for some time in what became known as the crisis of 'the empty chair.' In 1971, however, the members agreed to finance the FEOGA by establishing import taxes on agricultural products from outside the Community, customs tariffs, and a 1 per cent value-added tax (VAT) on member countries. In this way, a member state becomes a net recipient or contributor depending in part on its net position in agricultural trade with outside countries (Fennell, 1979: 70).

Mechanisms Guaranteeing a Unified Market and Community Preference[3]

On the basis of the above principles, the EEC Commission gradually developed the necessary market organizations, which were subsequently

adopted over the years by the Council of Ministers. These organizations began to come into force in 1962. At that time they covered a little more than half the agricultural production of the Six. By 1970 they were regulating 90 per cent. At the beginning of 1976, the Nine were still negotiating regulations for three commodities that remained under national control: mutton, potatoes and alcohol. The ministers subsequently reached agreement, and virtually all agricultural production has now been brought under Community legislation, which is not uniform for all product sectors. In fact, the Common Market organizations are divided into four broad categories in which various mechanisms are brought into play:

- The first is support prices combined with external protection, which cover more than 70 per cent of production (most grains, sugar, milk, beef and pork, some fruits and vegetables, table wine, fish products and any other product produced in large quantity within the EEC).
- The second is external protection only, which applies to 25 per cent of production (flowers, other wines, rice, other fruits and vegetables). Included with these products, which are not prime necessities, are eggs and poultry, the production of which is comparable to industry and does not require any particular government intervention.
- The third is additional assistance for products, along the lines of Britain's deficiency payments. This category covers only 2.5 per cent of production and serves to keep prices to consumers relatively low. Commodities involved include hard wheat and olive oil, the production of which is limited both geographically and in quantity, and some oilseeds and tobacco, on which zero or comparatively low customs duties (tariffs) are bound in GATT.
- The fourth is a fixed rate of assistance per hectare or per quantity produced, which applies to only 0.6 per cent of production (cottonseed, flaxseed, hemp, hops, silkworms and dehydrated animal feed).

As the market organizations were set up, the prices of commodities in the member states were gradually brought into line, eventually reaching a common level. Each year, on the

recommendation of the Commission, the Council of Ministers establishes the common prices that will apply during the next crop year. These prices vary, depending on the commodities produced and the guarantees sought.

Projected prices within the internal Common Market system have names that vary according to the organization of the particular market. There are target prices for grains, sugar, dairy products, olive oil, rapeseed and sunflowers; guide prices for beef, veal and wine; basic prices for meat, fruits and vegetables; and norm prices for tobacco. Generally speaking, these are the prices that the Common Market organization seeks to ensure for the producers of the various commodities.

Prices that serve as protection against markets outside the Community include threshold prices for grains, sugar, dairy products and olive oil; and sluice-gate prices for pork, eggs and poultry.

In addition, there are the intervention prices, at which the intervention agencies are obliged to buy the products offered to them. These apply to grains, sugar, butter, powdered milk, some Italian cheeses, olive oil, rapeseed, sunflowers, beef, pork and tobacco.

Monetary Compensatory Amounts

With the adoption of the Common Agricultural Policy came the establishment of common prices, but in the absence of a single currency, these prices were established in units of account (UA). In 1962, this artificial currency or standard of measure was defined as equivalent to 0.88868 of a gram of fine gold, corresponding at the time to one US dollar (Castarede, 1979: 99). In 1979, the Community adopted the European currency unit, a common unit of calculation that presupposed stable parities between the currencies of the member states. Since October 1981, a new ECU has been in use, based upon a weighted average of the national currencies of the member countries.

In order to prevent distortions of competition and the almost inevitable disintegration of the CAP, threatened by the 1971 replacement of the fixed-parity international monetary system by a floating regime, the monetary compensatory amount (MCA) was added to the agricultural monetary system. Its purpose was to offset the

effects on agricultural trade of changes in exchange rates that would otherwise cause the common prices to fluctuate in the various national currencies. These compensatory amounts had already alleviated the difficulties experienced by France in 1969 when the franc was devalued and the German mark revalued. At this time, neither country was prepared to adjust its agricultural prices accordingly: the French wanted to avoid a sudden increase in food prices, and the Germans a sudden drop in farm incomes. As a result, a system of taxes and subsidies (the MCA) was set up temporarily to prevent the distortions. The MCA system applies to most products that are subject to the levy system and to both intra-Community and extra-Community trade. MCAs operate in such a way that although real agricultural prices between member states are constantly changing in response to changes in exchange rates, the position of each member country remains the same as it would have been had there been no variation in the exchange rate. In other words, the fact that common agricultural prices are maintained (at least in principle) despite the continually changing rates of exchange within the Community is attributable entirely to MCAs.

In intra-Community trade, when a country experiences a reduction in the value of its currency, the immediate effect is a drop in the prices of exported goods as expressed in foreign currencies (while prices in the national currency remain unchanged). At the same time, imported goods, the prices of which are unchanged in foreign currencies, become more expensive in the currency of the country in question. The opposite effect is produced in the event of a currency revaluation. In the case of a devaluation, the market becomes less easily accessible to other countries. Distortions in agricultural trade are countered by the operation of negative MCAs in that the FEOGA taxes the exports and subsidizes the imports of the country whose currency has been devalued, thus negating the increased competitiveness resulting from the devaluation. When a country's currency is revalued, positive MCAs come into play, and the country receives export subsidies from the FEOGA and is taxed by the Fund on imports of agricultural products with a view to restoring the competitive position it has lost through the revaluation of its currency in relation to its 'green' currency. In summary, the value of the MCA is

based roughly on the difference between market rate of exchange and the so-called 'green rate,' to some extent a historical rate, being equivalent to that of 1972.[4]

Since most countries have wanted to protect their agriculture, those with strong currencies have endeavoured to maintain their green rate so as to obtain positive MCAs (Benelux, Germany and, since 1980, the United Kingdom). Those with weak currencies have tried to maintain parity between their green currency and their national currency, thereby avoiding negative MCAs (Denmark, Ireland). Only three countries (France, Italy and the United Kingdom until 1979) have kept their green rate below the current rate of exchange. (Agra Europe, 13 March 1981: P/3).

In extra-Community trade, this means that the CAP operates to a large extent on the basis of variable levies, which fluctuate almost daily. Positive compensatory amounts are added to these to give greater protection to countries whose currency is revalued, while negative compensatory amounts are deducted from the levies of member countries whose currency is devalued, thus reducing their level of protection against imports from third countries.

When Britain joined the Community in 1973, for example, its rate of exchange was at par. From 1974 to 1977, however, the Labour government, mindful of its social contract with the unions, was more concerned with preventing increases in food prices than with supporting agricultural producers. For this reason, it did not favour a strengthened pound sterling in relation to the green pound, that is, increased prices for agricultural products and greater protection of the British market. The general weakness of the British economy, coupled with this agricultural policy, led to an actual decline in farm incomes, and the demands of farmers for devaluation of the green pound could not be ignored indefinitely. Finally, in 1980, as a consequence in part of North Sea oil, the pound strengthened and even rose above the green pound. The government decided against a corresponding revaluation of the green pound, with the result that since that time, English farmers have enjoyed a greater degree of protection and higher agricultural prices than those generally in effect elsewhere in the EEC (Fillmore, 1981: 4).

Financial Assistance Provided by Member States[5]

The CAP is not the only mechanism governing agriculture in the EEC. Assistance given to the agricultural sector by national governments is about twice that provided by the Community. National expenditures are directed for the most part to structural policy, social security and tax measures beneficial to agriculture; Community expenditures are allocated mainly to the organization of markets financed entirely by the Community and to certain aspects of structural policy, which is financed jointly by the Community and by the member states. Most national expenditures on behalf of agriculture have been consistent with the Treaty regulations. As a result of the economic difficulties that have beset the agricultural sector in recent years, however, some member states have increasingly resorted to national forms of assistance, have occasionally failed to observe notification procedures and have provided assistance incompatible with the Treaty. Such assistance can have the effect of distorting competition, creating imbalances in agricultural markets and imposing an additional burden on the Community budget.

Although a certain amount of national support and some protective measures still remain, there is no question that trade in food products is much freer within the EEC than it would have been without the CAP.

The Community's Agricultural Trade Agreements[6]

Multilateral Agreements

The General Agreement on Tariffs and Trade (GATT) has been the framework for multilateral trade relations since its inception in 1947. Because of the Community's common commercial policy, the EEC has assumed the GATT commitments of the member states, with the result that, when the variable levy system was introduced, it had to grant concessions for a large number of important products, including fruits and vegetables, rice, tobacco, fish and oil-seeds. In the last sector, most oilseeds and oilcakes were granted duty-free status. During the GATT negotiations following Britain's entry into the EEC in 1973, the Community also agreed to tariff concessions that did not involve new products but consisted of further reductions in tariff protection. For

commodities on which concessions had had to be made, the Community of course worked internally to develop measures to provide the affected producers with incomes comparable to those of other agricultural producers. When the CAP was established, the Community accepted a number of amendments to make it somewhat more compatible with GATT. The EEC subsequently decided that the CAP was an internal policy outside the jurisdiction of GATT. With Britain's entry into the EEC, the Community emerged as a leading power in world trade, giving added weight to the two principal demands that it always presented in international circles: reciprocity and maintenance of the principles and mechanisms of the CAP. In the Multilateral Trade Negotiations (Tokyo Round), other countries, in effect, agreed not to challenge directly the CAP on condition that the Community not use subsidies to expand beyond its existing export markets (Pearce, 1981: 25).

Bilateral Agreements

The Mediterranean approach

In 1962, the Community concluded association agreements with Greece and Turkey in anticipation of their eventual membership. At the end of the 1960s, it entered into association agreements of another kind with Cyprus, Malta, Morocco and Tunisia; and in the early 1970s, trade agreements were signed with Israel, Spain, Egypt and Lebanon (Commission of the European Communities, 1978). After Britain, Denmark and Ireland joined the EEC, it became apparent that the Community's relations with the Mediterranean countries required a broader framework. This was the origin of what was called a 'co-operation agreement,' the general trade aspect of which tended to be part of a larger package including financial, technical and, in some instances, social assistance. Agreements of this kind were concluded with Israel, with the three countries of the Maghreb (Tunisia, Algeria and Morocco) and with Egypt, Syria, Jordan and Lebanon. For agricultural commodities that were competitive with European products, this approach made it necessary to develop special solutions that would not compromise the objectives or mechanisms of the agricultural policy. Tariff reductions applicable to fresh produce, for example, were generally granted as far as possible for periods outside

those of full Community production. For certain products subject to levies, concessions were so arranged as to have an economic rather than a trade value. For olive oil, for example, the levy on entry to the Community was reduced, but exports to the Community were subject to a tax that was collected and retained by the exporting country. The effect of these agreements on Canada has been limited, so far, to tobacco and soybean oil.

The African, Caribbean and Pacific countries

The Community's relations with a sizable group of African, Caribbean and Pacific (ACP) countries were formalized in 1975 by the signing of the Lomé Convention, which was renewed and extended in some respects in 1979.[7] The Lomé Convention provides a system for stabilizing the export revenues of the ACP countries (STABEX) and the extension of preferential treatment by the Community for exports from the ACP countries. (The ACP countries are not obligated to give similar preferences to Community exports.) The trade preferences mean that most goods imported from these countries are exempt from the application of customs duties, quotas or similar restrictions by the Community. About 99 per cent of the Community's imports from ACP countries enter duty free. Agricultural products subject to market regulation within the Community are the only exceptions, and these are governed by more favourable import arrangements than are similar commodities from third countries. Imports of beef and sugar from ACP countries are in this category.

As these countries are, for the most part, exporters of tropical products such as tea, coffee and cocoa to the British market, they are not in competition with Canada. Canada, has, however, lost part of the West Indies market, since these countries, on signing the Lomé Convention, had to relinquish their British Commonwealth Preference, with the result that Canadian products no longer enjoy the advantage they once had over American exports (Lohoar, 1978: 9).

The Generalized System of Preferences

In addition to the preferences extended by the Community under the Lomé Convention, the EEC and other industrialized countries, including

Canada, also extend tariff preferences to imports from developing countries under the Generalized System of Preferences (GSP). The GSP, which was developed within the United Nations Conference on Trade and Development (UNCTAD) in the early 1970s, applies to semi-finished and manufactured industrial products, textiles, processed agricultural products, and some agricultural products, particularly those from the tropics. It takes the form of reduction or elimination of customs duties on specific commodities. The tariff reduction is granted without quantitative restriction, except for six sensitive items that are governed by separate regulations: soluble coffee, cocoa butter, pineapple in slices, half-slices and whole spirals, and raw Virginia flue-cured tobacco.

The Community imposes relatively severe restrictions on imports of textiles and clothing products, under the GATT Multifibre Arrangement (MFA). Moreover, the Community has made few significant concessions for imports of temperate-zone agricultural products from developing countries, with the exception of those granted at the time of the enlargement of the EEC to some suppliers of sugar, beef and butter (Pearce, 1981: 25).

The 1973 Enlargement of the EEC

The formation of the European Community created a number of problems for other Western European countries, and it placed the United Kingdom in a particularly difficult position because of the special relations and tariff agreements it had with the Commonwealth.

As noted earlier, when the Treaty of Rome was signed in 1957, the door was open to Britain to become a partner in the EEC, but the country decided for various reasons not to join. In 1959, Britain, along with six other European countries unable or unwilling to join the EEC, decided to form the European Free Trade Association (EFTA). Finally, in 1961, Britain sought participation in the EEC. Negotiations were broken off in 1963, however, as a result of opposition by President de Gaulle, who had this to say:

> On a pu croire parfois que nos amis Anglais, en posant leur candidature pour le Marché Commun, acceptaient de se transformer eux-mêmes au point de s'appliquer toutes les conditions qui sont acceptées et pratiquées par les Six: mais

> la question est de savoir si la Grande-Bretagne, actuellement, peut se placer avec le continent et comme lui, à l'intérieur d'un tarif qui soit véritablement commun, renoncer à toute préférence à l'égard du Commonwealth, cesser de prétendre que son agriculture soit privilégiée, et encore tenir pour caducs les engagements qu'elle a pris avec les pays qui font partie de sa zone de libre-échange. Cette question-là c'est toute la question . . .
>
> (Castarede, 1979: 1973)

In 1967, Britain tried again to join the Community, but the matter dragged on until 1969, when the new French President, Mr. Pompidou, announced that France would no longer in principle oppose Britain's admission. In 1971, Britain finally agreed to most of the conditions set by the Community, stipulating only that there be an adequate transition period before becoming a full member. The negotiations dealt mainly with problems of adaptation of the EEC agricultural and financial policies and with some points of interest involving Commonwealth countries, such as sugar from developing countries and dairy products from New Zealand. An agreement was ultimately concluded in Brussels in January 1973, and the CAP was officially adopted by the three new members, Britain, Denmark and Ireland, in February of that year (Tracy, 1982: 295-319; USDA, 1972: 1-32).

Although the objectives of the CAP are quite similar to those set out in the United Kingdom's agricultural policy as stated in the Agriculture Act of 1947, Britain's accession to the Community constituted a sharp break with the past (Winegarten and Aclan-Hood, 1978: 75-81). The United Kingdom had to abandon the system of deficiency payments that had enabled it to keep the prices of food and agricultural products comparatively low while pursuing a liberal import policy. Indeed, deficiency payments, direct income support for farmers, assistance for capital expenditures and incentives for retirement programs were the main elements of Britain's agricultural policy. This type of system places the financial burden of support for agriculture on the taxpayer rather than on the consumer, as is the case under the CAP. Since domestic production was competing not only with low-priced imports but with imports subject to little or no customs duty, farm incomes had to be supported by government deficiency payments in order to make up the difference between the market prices

and those guaranteed by the government. It is estimated that in 1973, prices of dairy products, grain products, beef, sugar and other foods were on average 50 to 100 per cent higher in the Community of Six than in Britain (Agra Europe, 7 January 1983: N/1).

Britain adopted the CAP gradually over a period of five years (1973-78), during which time existing agricultural policies were replaced by the mechanisms and rules of the CAP, support prices were brought into line with those in the Community, and the trade and tariff policy of the EEC was adopted, as well as the policy governing its funding.

The alignment of prices took place in six stages and was completed in 1977. To prevent distortions in trade, accession compensatory amounts were instituted in addition to regular compensatory amounts, to take into account the difference between prices in the Six and those in effect in the three new member countries (Britain, Denmark, Ireland). The accession compensatory amounts were paid on a reducing basis, ending in 1978. From 1974 to 1978, support prices in Britain were up to 40 per cent lower than those in effect in the Community of Six (Walker, 1982: 48). The variable levies, of course, kept pace with price support levels. For agricultural products not subject to support prices or variable levies, the applicants moved toward the common external tariff in five stages. All tariff barriers between the applicants and the EEC finally disappeared at the same time.

For Britain, these tariff changes meant that, in the future, agricultural products from the Community would have an immediate price advantage over imports from third countries, except for Commonwealth sugar and New Zealand dairy products, which were the subject of special agreements. Britain's adoption of the CAP had particularly unfavourable consequences in the short term for Australia, New Zealand and Canada in that these countries, which had enjoyed practically duty-free entry to the British market under the British Commonwealth Preference, were unable to secure any real arrangements to compensate for the gradual loss of their preferred position between 1973 and 1978.

Indeed, products from Commonwealth countries lost their

competitive position on the British market not only in relation to the countries in the EEC and those that did not enjoy this preference, such as the United States, but also in relation to the ACP and Mediterranean countries and those benefiting from the Community's GSP system. The agreements reached by the EEC with the Mediterranean nations and its system of preferences became binding on Britain in 1973.

Exports of tobacco and vegetable oil from the ACP and Mediterranean countries were the most likely to have affected Canadian trade with Britain. Britain's links with the ACP countries were restructured only in 1975, when former British and European colonies were brought together with other ACP countries, under the Lomé Convention. It is unlikely that exports from this group affected Canadian exports, since the main commodities accorded special treatment were sugar, corn, rice and beef, none of which were included to any significant extent in Canada's sales to Western Europe.

In the area of financing, which proved a major problem during the negotiations and afterwards, the contributions of the new member states were phased in over a period of seven years. In 1973, these countries began paying duties on their imports of agricultural and industrial products, in addition to 1 per cent of the VAT. These contributions, however, were subject to limitations expressed as a percentage of the total annual budget of the EEC during the transition period. It was not until 1980 that the United Kingdom became a full contributor. By 1979, however, it was clear that Britain was overtaking Germany as the largest net contributor in the Community. Under the operation of the CAP, a member state's position as a net recipient or a net contributor under the Community budget depends upon: its MCA transfers, which are related to the strength of its national currency against its green currency; the green rate it is prepared to negotiate; and its net trading position in agricultural and industrial products.

Between 1973 and 1980, a number of factors combined to make Britain, a comparatively poor country, a net contributor to the Community budget. These included the decline in the pound sterling, Britain's unwillingness to lower its green rate, its position throughout the period as a net importer of agricultural and industrial products, and above all the fact that of the 70 per cent of the Community budget

allocated to agriculture, the United Kingdom received only a small fraction because of the relatively minor place occupied by agriculture in its economy (Fillmore, 1982: 55; Agra Europe, 9 July 1982: D/1 and D/2).

After strenuous negotiations, an agreement was reached at the end of May 1980 to reduce the United Kingdom's contribution to the EEC budget. Had it not been for the May 1980 budget, Britain, with a GNP equal to only 16 per cent of that of the Community, would have contributed in 1980 20.5 per cent of the revenue of the EEC and received in exchange only 8.5 per cent of its expenditures.

Britain's harshest criticism of the CAP has had to do, in fact, with its share of the Community budget. Another frequently heard complaint is that foods imported into Britain from the EEC cost more than they would if purchased from Britain's traditional suppliers. Even if there were increases in the prices of foods from these countries, there would be no additional cost for Britain in general, but rather a redistribution of income in favour of the taxpayer and the medium-size agricultural producer (Fillmore, 1978: 51). Finally, the point is made that 60 to 70 per cent of the Community budget goes to agriculture, which leaves little money for allocation to alternative policies that might benefit other sectors of the economy.

It is generally acknowledged, however, that the CAP has had a dramatic effect on the development of agricultural production in Britain and has served to stabilize farm prices. The former British Minister of Agriculture, Fisheries and Food, Mr. Peter Walker (1982: 54), described the performance of the country's agricultural sector as excellent. The Minister pointed out that there had been a phenomenal increase in production since 1973 and that domestic agriculture was supplying an increasing proportion of Britain's temperate food requirements, the percentage having risen from 63 per cent in 1973 to about 75 per cent in 1980; real agricultural prices had declined appreciably in recent years, and there had been a strong upward trend in labour productivity. The performance of the UK manufacturing sector appears to have been considerably less satisfactory than that of agriculture. From 1975 to 1980, output and labour productivity in agriculture increased by 122 and 129 per cent respectively, compared

with 99 and 105 per cent in the manufacturing sector (Walker, 1982: 55).

Production has, in fact, increased to the extent that, after being a net importer of agricultural commodities at the end of the 1960s, Britain has become a net exporter of beef, barley and wheat (since 1981), and is well on the way to becoming self-sufficient in butter (Agra Europe, 7 January 1983: N/2). Although, for all the reasons mentioned above, the CAP is still strongly criticized in Britain, there is some recognition of the positive effect it has had on production.

The General Effect of the CAP

In its memorandum entitled "Orientations pour l'agriculture européenne," the Commission of the European Communities (1981: 3) commented on agricultural development in the EEC in the following terms:

> La création du marché commun a mis la Communauté à l'abri des pénuries de denrées alimentaires et a stabilisé les marchés agricoles en les protégeant contre les mouvements spéculatifs qui affectent les marchés mondiaux des matières premières. La PAC a favorisé la modernisation de l'agriculture et, grâce à l'accroissement considérable de la productivité, a permis l'expansion des secteurs non agricoles en leur fournissant la main d'oeuvre nécessaire. Elle a également contribué au développement de l'industrie agro-alimentaire qui est étroitement liée à l'agriculture. L'agriculture européenne a également permis de répondre à la demande alimentaire mondiale.

The CAP has thus served to increase the Community's self-sufficiency in many agricultural products. The Community is currently meeting, in value terms, between 85 and 90 per cent of the overall food requirements of the member countries (Walker, 1982: 46). In temperate products, the Community is on the whole more than self-sufficient and, indeed, is a large exporter of certain products to world markets. It is generally admitted that some exports have been subsidized, and the more heavily subsidized have exerted downward pressure on world prices. Imports of other foods, however, particularly from tropical countries and the southern hemisphere, make the Community the largest food importer in the world. Coffee, tea, tobacco and tropical fruits, which cannot be produced in Europe, are all

imported. The Community is also a large importer of oilseed products, which would be very expensive to grow on a large scale in the EEC; they are regarded more as agricultural inputs, which should be priced as low as possible, than as outputs discouraging EEC production (provided, of course, that they are not used as substitutes for EEC grain). It is for this reason that the EEC was prepared to allow them in duty free or at low tariffs (Tangermann, 1979: 213-214).

Exports from the EEC comprise mainly dairy products, grains, refined sugar, beef and temperate fruits and vegetables. The Community has even been for some time a net exporter of wheat, producing enough soft wheat to offset its purchases of hard wheat, which cannot be grown within its boundaries.

This progress, however, has not been without problems. The Common Agricultural Policy is based essentially on regulatory mechanisms aimed at supporting farm incomes by means of relatively high guaranteed prices, or direct subsidies for products in unlimited quantitites not necessarily adapted to market requirements.

The continuing growth of agricultural production, coupled with the less rapid rise in food consumption within the Community, which resulted from that policy, has created increasing difficulties in market management in the form of large surpluses and a growing dependence on export markets. There has been increasing recourse to refunds from the Community budget for the purpose of storing surpluses and subsidizing exports. In recent years, therefore, the Community has been obliged to adopt a more cautious policy of price supports. It has also stressed the need for vigourous efforts to expand markets and for an intensified export policy that will enable the Community's agricultural exports to increase more rapidly than its imports. In the context of the CAP, such a policy is particularly necessary, since food consumption in both the United Kingdom and the remainder of the Community is increasing very slowly. Population growth is minimal, and the market for essential foodstuffs in the Community is no longer expanding at its former rate. The future will bring changes in consumer preferences, with a probable trend away from traditional meats and fats toward vegetable proteins and fruit. The products of the earth, however, are not governed by economic forces of this kind. Through

science and innovation, agriculture has developed an enormous productive capacity, which will have to be restrained if greater surpluses are to be avoided (Buckwell et al., 1981: 303-315).

The Community has accordingly been engaged for some time in developing long-term projections of future trends in agricultural production, consumption and trade. Decisions covering periods of one or two years often prove inadequate, and it is becoming increasingly important to look ahead five years.

The Commission believes it is time to consider seriously the next expansion of the Community. With the recent accession of Greece and the expected entry of Spain and Portugal, the Common Agricultural Policy will apply to twelve countries. This expansion not only will alter the market for most agricultural products, but also will necessitate changes in the Common Agricultural Policy.

Finally, in its future policies, the Community will no longer be able to disregard the budgetary implications of the Common Agricultural Policy. There are strong internal pressures for more effective control of the rate of increase of CAP costs and a better distribution of the budget among member countries (Agra Europe, 16 July 1982: P/2). By supporting farm incomes through price support mechanisms, moreover, the CAP gives an added advantage to large producers and to areas in which agriculture is already favoured. In the future the CAP must take into account these income disparities between producers and regions.

The CAP often provokes criticism, not to say acrimony, both inside and outside the Community. In an article in Agra Europe (8 October 1982: E/1) entitled "How the CAP First Went Wrong," a discussion of the development of the policy reads in part as follows: "The way in which the European Community first blundered into its present expensive and inappropriate policy is a fascinating story of the weaving together of tradition, shortsightedness, the pursuit of national ambition and sheer stupidity."

Outside the EEC, the CAP is perceived as highly protectionist, inefficient and disruptive of world agricultural markets. McGill University Professor A.L. Fischer (1979: 29), for example, observes: "Since its establishment, the CAP protected the inefficient farm

industry in the EC against the competition of low cost producing suppliers." Referring to the export subsidies, Fischer adds: "The history of CAP is fraught with interventions which distort the competition and inhibit the performance of the traditional market forces."

The numerous analyses of the CAP published in recent years have indeed produced a great deal of data on its economic consequences. These studies have usually endeavoured to quantify the overall economic costs or what is described as the 'poor allocation of resources,' attributable to the fixing of support prices above those of world markets. The analyses invariably arrive at different estimates, however, and the divergences can usually be traced once again to the old problem of what would have happened if there had been no agricultural policy. Would there have been no support or stablization of agricultural prices without the CAP? Or would the support have been at a different level from what is currently in effect? The permutations are endless, and, in my view, it is simply not realistic to assume that the member states in the absence of the CAP would have abandoned their policies of providing support for their respective agricultural sectors. Indeed, for the reasons referred to above, few of the countries would have been in a position to do so. The annual price negotiations in the Community show clearly, moreover, that governments are not prepared to consider any rapid or substantial reduction in their agri-food sector, and certainly not the sort of reduction that would be achieved by a radical attack on CAP support measures. Though European agriculture might still be as strongly protected against outside competition without the CAP, the policy has at least served to reduce tariff barriers between member countries and has thus created an expanded market, with opportunities for economies of scale and increased productivity within this common market.

The frequently heard statement (especially from the British Labour Party) that consumers would be better off if the CAP were abandoned because lower food prices would follow is illusory in that it fails to take into account all aspects of the program. This view is based on the hypothesis that deficiency payments would be introduced, but it is seldom mentioned that the costs involved would be borne by the

taxpayer (Walker, 1982: 48; Agra Europe, 5 February 1982: E/7).

All this should not be taken to mean that the obvious economic costs resulting from surpluses of such commodities as dairy products, sugar and wine are acceptable. In the interests of the CAP, and of the Community as a whole, reforms must be instituted to bring down these costs in the next few years. Here again, the Community's growing surpluses are regarded both inside and outside the EEC as a direct result of the CAP price support system. There is no doubt that the surpluses would be kept to more reasonable levels if protection by the EEC were reduced. There is a tendency to forget, however, that most other industrialized countries are faced with large agricultural surpluses, especially in the dairy sector, and that these may be attributable as much to exceptional technological developments in agriculture coupled with slow growth in demand, as to government support measures. In this regard, the CAP is perhaps as much to blame for the increased agricultural productivity it may have engendered as for its policy of supporting high prices.

As for the effect the CAP has had on world agricultural trade, Tangermann (1982: 15) points out that there have as yet been few serious studies on this subject. To his knowledge, the problem has not been approached product by product in any time-series analysis of either intra-Community or extra-Community trade.

As mentioned earlier in chapter 1, Tangermann has himself carried out a study on the subject. While realizing the limitations of his analysis, he concludes that there is no evidence to indicate that the EEC is more protectionist toward agriculture than most other industrialized countries.

> In general, we cannot say that the EC has captured a large share of developed country production or that it has cut back its consumption in relative terms. This would seem to be in contrast to the EEC's rising surplus. But it only says that the EC's surpluses have roughly grown in line with the surpluses of the developed countries on aggregate. (Tangermann, 1982: 18)

He emphasizes, however, that these results do not excuse the Community for the destabilizing effects its heavily subsidized exports have had on world markets. He goes on to show that the hypothesis that the Community's system of variable levies and export subsidies

tends to destabilize international agricultural trade has not been refuted by empirical evidence in any studies in which it has been tested. In his view, such mechanisms cannot fail to have an effect on international trade. Given the purely domestic-oriented nature of the CAP measures and the importance of the CAP within the broader objectives of the Community, it becomes virtually impossible to obtain any tariff concessions whatever from the EEC in multilateral negotiations (GATT). Since most agricultural products are protected by support prices/variable levies, the Community insists that its domestic policies are not negotiable. It is prepared to negotiate a tariff or an import quota, but not a support price/variable levy.

For some time, in fact, outside countries have been attacking the CAP less for its protection against competing imports than for its policy of export subsidies, which has the effect of depressing international prices and depriving other traditional exporters such as Canada, the United States and Australia of outside markets. Canada is very apprehensive that the EEC may introduce a system of credit facilitating sales to other countries on a long-term basis. The fear is that such a system would lead to an escalation of export subsidies on all sides, and that in an eventual war of subsidies between the EEC and the United States, Canada would lose its own markets, and the country with the largest public purse would be the ultimate winner.

In addition to its quest for long-term export contracts, the CAP is causing other countries some anxiety through its efforts to restrict its imports of grain substitutes, which are subject not to variable levies but to tariffs. The Community has ratified an agreement with Thailand whereby the latter is to impose voluntary restrictions on exports of cassava to the EEC. Negotiations aimed at similar controls on agricultural trade are in progress with Indonesia and other members of GATT. The Commission would like to negotiate a similar restrictive agreement on exports of American corn gluten to the EEC (Agra Europe, 23 April 1982: P/2).

4: THE EVOLUTION OF CANADA'S PRINCIPAL EXPORTS TO BRITAIN FOLLOWING THE ADOPTION OF THE CAP

Canadian agricultural exports to Britain totalled $618 million in 1981, compared with only $280 million in 1972 (see Tables II and III in the Appendix).

In light of these figures, it may seem difficult to assert that Britain's entry into the EEC has adversely affected Canada's exports to Britain. These totals, however, are in current dollars and reflect the high inflation of the 1970s. When the data is broken down, we find that even in value, exports of particular products have appreciably declined. Viewed in quantitative terms, the decline becomes much more obvious.

During the period 1972 to 1980, the commodities in which a significant increase occurred in both value and quantity were wheat, animal feeds, other animal products, vegetables and tobacco. Other Canadian exports, including barley, wheat flour, oilseeds (flaxseed), oilseed products, cheese, apples and edible offals, appear to have been severely affected by the EEC's expansion. For a number of these products, the drop was even greater than most analysts had predicted (Lohoar, 1978: 9). Some commodities, such as wheat and tobacco, though not experiencing a drastic decline, did not achieve the rate of growth they had customarily shown before Britain joined the Community.

Under the GATT agreements of 1980, tariff concessions were granted on a number of commodities including oilseeds, oilseed

products, tobacco, animal feeds, edible offals, cheddar cheese, fruits (apples, blueberries) and vegetables (dried peas and beans), animal fats, seed potatoes, honey and maple syrup. If one considers that exports of some of these products have increased substantially since the 1980 negotiations, the picture becomes less bleak.

Each of these Canadian exports will be analysed in depth, except for fruits and vegetables, which will be excluded to keep the study to a reasonable length. Moreover, they constitute only a small portion of total agricultural exports, and information concerning them is not readily available. We may simply say that fruits and vegetables are subject to the fixed tariffs of the EEC and that customs duties on a number of them began to be reduced in 1980.

For the purpose of this analysis, we will divide the principal Canadian exports into three broad categories:

1. those subject to levies under the CAP: wheat, barley, cheese
2. those subject to tariffs or granted duty-free entry: oilseeds, oilseed products, tobacco
3. substitute or residual products subject to a low tariff or a small levy or entering duty free: pelleted screenings, edible offals.

Exports Subject to CAP Levies

Grains

Expenditures for the support of the grain sector compose approximately 15 per cent of the total budget of the European Community (Agra Europe, 26 March 1982: D/2). This sector is undoubtedly one of the most important segments of Community agriculture.

Essentially, the mechanisms of the CAP are structured to increase production by guaranteeing producers a market and protecting them against competition from non-member countries. Since the CAP was adopted, grain production in the EEC has increased much more rapidly than consumption, with the result that surpluses are now exported to outside countries with the aid of export subsidies. The Community has become one of the main exporters of grain in the world. This growth has even led some importing countries, including the USSR, to buy some of their grain from the Community rather than from their

traditional suppliers, which have generally been the United States, Australia, Canada and Argentina.

Barriers

Mechanisms (Fennell, 1979: 119-126; Jabara and Brigida, 1980: 1-4). The Community's barriers against imports of grain have been a major subject of controversy for grain-exporting countries since 1962. Imports of grain from non-member countries are governed by the variable levy, the cornerstone of the EEC's trade policy for grain.

The purpose of this levy is to protect domestic producers, usually by increasing the prices of grain imports to the level of the domestic prices established by the CAP, without regard to world prices. The agricultural policy on grain is expressed in a price system, established in 1967, which operates in such a way as to support both production and intra-Community trade. The system comprises: 1) a target price, 2) an intervention price, and 3) a threshold price.

The target price is the wholesale price that the common market organization endeavours to ensure for producers by the application of interventionist and protectionist measures at the Community's frontiers. For wheat and barley, this price is fixed annually by the Council of Ministers of the EEC. It is calculated roughly by adding to the market price of grain in the area of maximum surplus, namely, Ormes in France, the cost of shipping this grain to the area of maximum deficit in the Community, namely, Duisburg in West Germany (see Figure I in the Appendix).

The threshold price is established with a view to bringing the selling price of the imported product, taking into account transportation costs, to the level of the target price. The difference between the world price and the threshold price is made up by the levy. This price, which is fixed in Rotterdam, operates in such a way that the selling price of imported grain on the Duisburg market is equivalent to the target price.

The variable levy is thus a levy imposed on grain imports from outside the Community; it is equivalent to the difference between the threshold price and the lowest price offered at Rotterdam by non-member countries. The levy varies from day to day to keep the world

price and the EEC threshold price for grain in balance.

The intervention price is the price at which the intervention agencies are obliged to buy the products offered to them (for example, wheat and barley) that have not been taken up by the Community or outside markets. This is a floor price based since 1976-77 on conditions prevailing at Loiret in France.

The common denominator of the target price, threshold price and support price is the European currency unit. As shown earlier the ECU serves as a standard of value and not a monetary unit in that in trade transactions between member countries, the currencies of these various countries are first converted to ECUs.

Monetary policy. When dealing with products covered by variable levies, one cannot discuss the protection of the British market without speaking of the monetary policy associated with it. If we consider grain, for example, in extra-Community trade, the compensatory amounts for grain are added to the levies on grain imported by member countries whose currency is revalued in relation to their green currency. This mechanism serves to increase protection for a member country that has undergone a currency revaluation in that it helps maintain the price of its grain. In other words, this price prevents the price from falling as a result of imports of grain from a third country that have become cheaper because of the member country's currency revaluation.

Conversely, monetary compensatory amounts (MCAs) are deducted from levies for member countries whose currency is devalued in relation to their green currency. As a result, domestic prices will not rise as they otherwise would, since import prices (and thus protection) will have fallen to the level of the target domestic prices established by the CAP, thus maintaining the prices in effect before the devaluation. As the findings in the study by Jabara and Brigida show (see Table 4.1), in countries like France and Britain, which experienced successive devaluations between 1973 and 1978, nominal rates of protection accorded by the variable levy for wheat and barley were lower than those in effect, for example, in West Germany, where the currency continued to strengthen during this period.[8]

Protection on grain in Britain, however, has been considerably less than that prevailing in other EEC countries. For barley specifically, there was, in fact, a negative rate for three consecutive years (see Table 4.1). This low nominal rate of protection was attributable to:

- the high level of negative MCAs, which served to reduce import prices in Britain. The rate of exchange of the pound sterling had declined to the point that its divergence from the green currency was greater than that observed in the other member countries during the period 1970-78 (Agra Europe, 3 April 1981: M/3).
- accession compensatory amounts (ACAs), constituting the difference between CAP target prices and the transitional accession target prices granted to Britain from January 1973 to January 1978. These accession compensatory amounts were designed to ensure that Britain's agricultural protection increased only gradually to that of the EEC. They were therefore added to the MCAs to reduce still further Britain's protection for barley and wheat compared with countries outside the Community.

TABLE 4.1: Barriers to Imports of Barley, Corn and Wheat into EEC: Estimated Rate of Protection as a Percentage of Rotterdam Prices, 1970-78

	1970	1971	1972	1973	1974	1975	1976	1977	1978	Average 1970-78
Barley										
France	66.8	64.8	71.0	17.5	-1.0	16.6	21.1	54.9	94.9	45.1
West Germany	66.7	65.1	76.9	27.1	11.6	32.3	38.3	87.5	132.9	59.8
United Kingdom	-	-	-	1.1	-1.0	-4.0	-6.5	26.5	76.9	15.3
Corn										
France	47.0	54.8	80.0	18.7	-1.0	18.7	32.0	63.3	91.6	45.0
West Germany	46.9	56.2	86.2	28.3	10.4	33.6	49.7	96.0	130.6	59.8
United Kingdom	-	-	-	1.8	-1.0	-6.0	6.6	34.1	73.0	17.5
Soft wheat										
France	80.5	78.5	81.5	18.0	-1.0	19.0	36.6	74.6	78.7	51.8
West Germany	80.4	78.3	87.0	25.5	8.9	32.9	54.6	108.0	116.0	65.4
United Kingdom	-	-	-	1.7	-1.0	-3.6	5.7	47.2	62.2	18.9
Durum wheat										
France	80.0	90.4	84.0	17.5	0	12.6	62.5	131.3	106.1	64.9
West Germany	80.0	90.3	85.0	17.0	0	11.7	63.1	131.7	153.6	70.3
United Kingdom	-	-	-	3.3	0	2.5	34.6	107.7	83.1	38.5

Source: Cathy L. Jabara and Alain S. Brigida, "Variable Levies: Barriers to Grain Imports in France, the Netherlands, Federal Republic of Germany, and United Kingdom," US Department of Agriculture, Economics, Statistics, and Cooperatives Service, Foreign Agricultural Economic Report, No. 156, March 1980 (Washington, D.C.), pp. 1-12.

Note: Dash (-) means not available.

- world grain prices, which for the period 1973-75 were higher than the target prices in effect in the Community. Since the variable levy was based on the difference between threshold prices and world prices, the levy and accordingly the degree of protection were at zero, if not negative, for most of the member countries of the Community.

In the period 1973-78, therefore, agricultural and food products imported into Britain were heavily subsidized, reducing consumer prices but in no way benefiting the country's own agriculture. To encourage production, the British government could have agreed to devalue the green pound and thus reduce the negative MCAs, as proposed by the Community. This it refused to do, however, since for political reasons, the government of the day favoured consumers over producers in its dealings at Brussels.

The situation was completely reversed in 1979, when the rate of exchange of the pound sterling began to rise as a result of the development of Britain's petroleum deposits. The pound rose not only in relation to US and Canadian dollars, but also in relation to most of the European currencies (see Table 4.11). When the rate of exchange of the pound became higher than that of the green pound, a radical change occurred in Britain's situation since entering the Common Market (Agra Europe, 3 April 1981: M/3). At that point, British imports of agricultural products were no longer subsidized, but taxed; and exports, instead of being taxed, were subsidized. Britain began to receive positive MCAs, which increased protection of the domestic market as the pound continued its climb. In the context of the CAP, increased protection meant higher prices. An increase of 2.6 per cent in the Community's target price for soft wheat in 1979, on conversion to pounds sterling, constituted an effective increase of 13.7 per cent (see Table 4.2).

We should point out finally that the introduction of the ECU in its present form on 4 October 1981 had the effect of increasing Britain's protection considerably. The ECU is now a weighted average of the national currencies of the member countries in the Community, its purpose being to reduce the wide fluctuations between the various European currencies (European Community, 1981).

To sum up, during the period 1973-78, Britain's protection for wheat and barley, compared with third countries, was very low and at times negative. Beginning in 1979, however, its protection rose rapidly, particularly in comparison with that of most member countries in the Community. Rates of protection vary from country to country, despite common prices for agricultural products in the EEC, mainly because of the varying differentials between the rates of exchange of national currencies on one the hand and the countries' own green rates on the other.

TABLE 4.2: Prices of Barley, Corn and Wheat in the EEC, 1977-82
(European currency units)

	1977	1978	1979	1980	1981	1982
Soft wheat						
Basic intervention price	145.15	146.97	149.17	155.88	165.33	-
Threshold price	-	-	192.71	197.45	-	-
Target price	191.11	196.32	201.42	214.01	230.50	-
% increase over previous year in ECU	4.0	2.7	2.6	6.3	7.7	-
% increase over previous year in British pounds	7.1	11.1	13.7	13.1	7.7	-
Hard wheat						
Basic intervention price	245.43	245.43	249.12	260.33	279.85	-
Threshold price	-	267.54	273.40	-	-	-
Target price	271.13	271.13	277.37	296.71	317.49	-
% increase over previous year in ECU	2.5	0	2.3	6.3	7.7	-
% increase over previous year in British pounds	5.6	8.1	13.4	13.1	7.7	-
Production assistance	-	76/ha	77.31/ha	-	-	-
Barley and corn						
Basic intervention price	145.15	146.97	149.17	155.88	165.23	179.27
Threshold price	-	174.39	178.90	189.50	205.00	-
Target price	175.26	177.99	182.89	194.32	210.00	228.27
% increase over previous year in ECU	5.2	1.6	2.8	6.3	8.1	-
% increase over previous year in British pounds	8.3	9.8	13.9	13.1	8.1	-

Source: European Community, "Common Agricultural Prices 1981/82, Council's Decisions," Green Europe Newsletter, April 1981.

Note: Dash (-) means not available.

Wheat

During the 1970s, Canadian exports of wheat to Britain continued to make up between 10 and 14 per cent of Canada's total wheat exports. Similarly, Canada's share of Britain's total wheat imports held steady at about 15 per cent (calculations based on Table 4.3).

What accounted for this consistency in the period following Britain's entry into the Common Market?

TABLE 4.3: Wheat: Britain and Canada, 1965-81

(000 tonnes)

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Production in Britain[a]	4 171	3 475	3 903	3 469	3 364	4 236	4 815	4 730	5 003	6 132	4 488	4 760	5 274	6 613	7 175	8 145	8 400
In the EEC[b]	-	-	-	-	-	-	-	-	41 393	45 352	38 105	39 524	38 499	47 762	-	-	-
Initial stock (as of 1 August)	-	-	-	-	-	-	-	-	1 159	1 136	1 512	1 356	1 298	1 176	-	-	-
British imports[b]	4 664	4 176	4 077	4 576	4 781	5 359	3 829	4 535	3 114	3 556	4 264	3 422	3 690	2 733	2 471	2 262	1 771
From EEC[b]	-	-	-	-	-	-	-	-	-	1 550	1 871	2 368	1 799	1 300	0.754	0.498	-
From France[c]	378	91	311	554	633	105	585	1 323	802	1 380	1 540	1 439	-	899	359	219	-
From Australia[c]	675	412	583	793	1 199	1 754	540	523	-	1	73	30	-	-	-	-	-
From Canada[c]	2 126	2 000	1 873	1 590	388	1 550	1 420	1 249	1 191	1 607	1 216	1 318	1 599	1 538	1 286	1 518	-
From United States[c]	812	701	250	85	338	1 221	694	479	268	250	419	15	203	243	379	244	-
Domestic use in Britain[d]	-	-	-	-	-	-	-	9 143	7 942	9 043	8 277	8 155	8 535	8 645	9 434	9 093	8 733
Animal feed	-	-	-	-	-	-	-	3 618	2 601	3 706	2 889	2 638	3 099	3 210	-	-	-
Human consumption	-	-	-	-	-	-	-	5 090	5 0 2	5 104	5 111	5 260	5 150	5 220	5 210	5 017	4 902
Exports from Britain[d]	-	-	-	-	-	-	-	92	162	190	440	233	582	343	565	1 154	1 943
Canadian exports[e]	14 835	14 833	8 926	8 889	9 009	11 560	13 807	15 628	11 723	11 179	12 134	12 906	15 881	13 528	14 998	15 569	17 972
% exported to United Kingdom	14	14	21	18	15	13	10	8	10	14	10	10	10	11	9	10	-

Sources: a. FAO, Production Yearbook for 1965-77, and Agra Europe, 10 July 1981 for 1978-81.
b. Eurostat, Yearbook of Agricultural Statistics, 1981, and Agra Europe, 10 July 1981, D/2.
c. Canada Grains Council, Canadian Grains Industry, Statistical Handbook for 1965-77, and Agra Europe, 10 July 1981, D/2 for 1978-81 and 29 October 1982, D/5.
d. Eurostat, Yearbook of Agricultural Statistics, 1981.
e. Canada Grains Council, Canadian Grains Industry, Statistical Handbook and Canadian Wheat Board, Annual Report for 1965-81.

Note: Data for production are for the crop year beginning 1 August and ending 31 July the following year. Dash (-) means not available.

One of the main factors was the high quality of Canadian wheat, which made it almost indispensable in British bakeries. It complements the soft wheat grown in the Community, which is used more for animal feed and is not suitable for the production of wheat flour except when mixed with high-protein hard wheat. Italy is the only European country with the sunny climate that favours cultivation of this type of wheat, and it is capable of meeting only a small fraction of the Community's needs (Carmichael and Kampouris, 1975: 4). As a result of technological changes introduced in British bakeries, the proportion of hard to soft wheat has been progressively reduced in bread making, but between 40 and 50 per cent of the wheat used for this purpose still comes from outside the Community (Carmichael, 1977: 14). For this reduced market, Canadian red spring wheat is in direct competition with American spring and winter hard wheat. As shown in Table 4.3, the demand for wheat for human consumption was maintained through the 1970s, a fact that seems directly related to the absence of any radical change in British dietary patterns and to the slow though sustained population growth in the United Kingdom during this period.

Another important factor was that between 1971 and 1977, the terms of access to the British market for Canadian wheat remained relatively unchanged. The reason for this was simple: before the expansion of the EEC, there was no tariff on wheat entering Britain, regardless of its country of origin. Canada, while enjoying duty-free entry, was therefore not benefiting from any preferential tariff. Although Britain became subject to the CAP variable levy in 1973, this tax, for the reasons cited above, became fully effective only in 1976 with the rise of the pound sterling in relation to the green pound and the abolition of accession compensatory amounts. Only then did the British wheat market begin to be protected against competition from third countries. It should be pointed out, however, that in July 1971, as a transitional measure before joining the EEC, Britain had introduced a restrictive policy on imports, except for member countries of the EEC, which continued to enjoy duty-free entry. As indicated in Table 4.3, the United States and Australia appeared to be the countries most affected by this measure.

One additional factor that may well have prevented a fall in

Canadian exports was the drastic drop in wheat production in Britain in 1975-76 due to unfavourable weather. Had it not been for the poor crops in those years, the continued decline in the use of wheat for animal feed, resulting from the gradual rise in prices above the world price, would undoubtedly have brought a considerable reduction in Britain's imports of wheat.

At the same time, although little hard wheat is produced in the EEC, Canada's exports of wheat to Britain have not increased. The main reason is that the high prices for grain under the CAP increased Britain's self-sufficiency rate from 51 per cent in 1972 to 80 per cent in 1981, thus reducing the country's total imports by more than half during this period. (These calculations are based on Table 4.3.) Production soared from 5.0 million tonnes[9] in 1973 to 8.4 million in 1981, while overall consumption tended to decline somewhat despite a slight increase in the livestock population and in meat production (see Tables 4.3 and 4.9).

It is important to note, however, that only since 1977, following the cessation of negative MCAs and ACAs, and particularly since 1980, when the strong performance of the pound in relation to the green pound resulted in the introduction of positive MCAs, has the CAP begun to play its full role in Britain, at least for grain.

Before 1976, when the Commission established a preference price for soft wheat of bread-making quality that could serve as well for animal feed, wheat consumption within the Community had been declining. Until 1980, France, which was then producing about 45 per cent of the wheat in the Community, was the main beneficiary of this change, particularly since an accompanying change in the price of corn caused French wheat to become a substitute for American corn (Eurostat, 1981).

The commencement of positive MCAs for Britain in 1980, however, gave further impetus to the production of soft wheat in Britain and greatly reduced consumption. Grain prices increased to the point that meat and milk producers, instead of feeding wheat and barley to livestock, found it profitable to turn to imported substitutes on which CAP tariff barriers were comparatively low, such as grain screenings (by-products), oilseeds, cassava and corn gluten. This

situation caused French exports of soft wheat to Britain to plummet and become a major subject of controversy within the member countries of the EEC (Cooper, 1981: 38).

The slow growth in the use of wheat for bread making was mainly the result of the slow growth of population and per capita income in Britain during the 1970s. With the technological changes that have occurred in European bakeries, moreover, it has become possible to make quality bread using less hard wheat in proportion to soft wheat, a development that does not help Canadian wheat exports.

In conclusion, if Canadian exports of wheat to Britain have not risen at their usual rate in recent years, it is not because Canada has been unable to keep up with its competitors, since in the final analysis, it is the only country among all Britain's suppliers (including France) to have maintained and even increased its share of the market (see Table 4.3). The only reason is that as a result of the CAP, Britain has become self-sufficient in soft wheat. What is more, since 1982, Britain has even become a net exporter of wheat.

Barley

Before 1973, Canadian exports of barley to Britain fluctuated widely from year to year, at times falling to a mere 15 per cent of total barley exports and rising, as in 1968, to 45 per cent (see Table 4.4).

Barley is used largely for animal feed and, to a lesser extent, in the manufacture of beer and spirits. One of its main characteristics, especially as an animal feed, is that it can easily be replaced by corn, as well as by wheat and certain oilseeds, depending on its price compared with these products. It is not surprising, therefore, that between 1968 and 1969, Britain's imports of barley doubled, despite the fact that its domestic production was unchanged and stock farming, the main outlet for barley, increased only slightly. Such a situation is not uncommon when the ratio of the price of barley to that of corn becomes less than one, or in other words, when the price of barley falls below the price of corn. The increased demand for barley that results must often be met by massive imports.

If Britain's entry into the EEC did not appear to have affected Canadian wheat exports, the same could not be said of exports of

barley, which fell from 678 thousand tonnes in 1971 to 51 thousand in 1973, while France's exports climbed from near zero to 532 thousand in the same period. Canadian barley exports were saved from complete collapse until 1980 only because some quantities were still purchased by distilleries because of its special qualities (see Table 4.4).

Why did Canadian barley exports, unlike wheat, fall immediately after Britain joined the EEC?

It is probable that the 1972 decline was attributable not to the EEC expansion, but rather to the drop in British imports of barley occasioned by that commodity's high price in comparison with corn. As with wheat, the period after Britain's entry into the Common Market might be divided as follows: 1973 to 1977, and 1977 to the present. During the first period, three factors appear to have affected Canada's exports of barley to Britain: 1) the loss of the British Preference, which had given Canada and Australia an advantage over non-Commonwealth countries such as the United States and the six members of the European Community; 2) the fact that members of the EEC gained duty-free access to the British market in 1973; and 3) the lower price of EEC barley in relation to the world price.

At that time, as we know, the Commission had refused to allow Community grain prices to rise to the level of those in effect on international markets. In the context of the CAP, of course, this required that variable levies be pegged almost at zero and that compensatory amounts be used to tax exports from member countries to third countries in order to hold down the prices of the products involved. In these circumstances, protection for several EEC countries became practically nil, especially if the rate of exchange of their national currency fell below the green rate.

As the Jabara and Brigida study shows, this is what happened in Britain between 1973 and 1977. The beneficiaries, however, were neither Canada nor Australia, but EEC countries such as France. Despite the slight degree of protection existing in the United Kingdom in comparison with third countries, France could still dispose of its barley on the British market at more competitive prices than those in effect at the Community frontier.

Britain did not again become a large importer of barley from

outside the Community until the poor crop year of 1976. Once more, however, it was not Canada that benefited but rather the United States, which in that year exported 127 thousand tonnes of barley, or about twice the total of the preceding ten years. Without the preferential tariff, Canadian barley, other than that used in distilleries, is competitive neither with imports of barley from the Community nor with US corn, exports of which to the United Kingdom rose from 1.1 million tonnes in 1975 to 2.5 million in 1976. To provide dairy cows and feeder cattle, as well as sheep, with the necessary energy and protein, the corn-soybean combination is widely favoured in Europe over Canadian barley and oilseeds (see Table 4.4).

Finally, as for wheat, the effect of the CAP on barley production and consumption in Britain began to be felt only after 1977. The rise of the pound sterling in relation to the green pound pushed up barley prices, and with them protection, more rapidly than elsewhere in the Community, with the result that by 1978, Britain was becoming more than self-sufficient in barley (Agra Europe, 7 January 1983: A/2). In 1980, only 207 thousand tonnes were imported, of which 197 thousand came from the Community and only 10 thousand from Canada (see Table 4.4).

Cheese

Cheese making is one of Canada's original industries. As far back as 1801, cheese was being exported from Kingston, Ontario. It was not until 1864, however, that the first cheese factory was established, in Oxford County, Ontario. Shortly after Confederation, Canada was exporting some 45 thousand tonnes of cheddar cheese. Record exports of 106,142 tonnes, never since equaled, were reached in 1904 (McCormick, 1979: 3). Until 1947, about half the cheese produced in Canada was exported, mainly to Britain, which still remains the principal trading partner for this product.

Canadian exports of cheddar cheese to Britain hovered during the 1960s around 14 thousand tonnes. The high variable levy imposed in 1973, however, brought these shipments virtually to an end in two years. Canada was suddenly faced also with the loss of its duty-free access to the British market as well as the 15 per cent preference

TABLE 8.4: Barley and Corn: Britain and Canada, 1965-81

(000 tonnes)

BARLEY	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Production in Britain[d]	8 191	8 724	9 215	8 271	8 663	7 529	8 558	9 249	9 007	9 133	8 513	7 648	10 531	9 848	9 613	10 339	10 809
In the EEC[a]	-	-	-	-	-	-	-	-	34 427	32 430	32 462	30 052	37 678	39 560	-	-	-
% Britain/EEC	-	-	-	-	-	-	-	-	26	28	26	26	28	25	-	-	-
British imports[b]	192	226	109	345	957	1 055	1 051	541	861	640	608	1 040	491	455	299	207	7
From EEC[b]	-	-	-	-	-	-	-	95	682	517	405	643	407	330	212	197	-
From France[c]	-	-	-	7	123	17	49	65	532	293	236	447	247	-	-	-	-
From United States[c]	22	-	-	-	5	21	-	23	-	-	1	127	-	-	-	-	-
From Australia[c]	35	25	4	142	250	261	244	94	38	15	28	99	16	24	-	-	-
From Canada[c]	130	197	50	205	376	795	678	274	51	39	58	56	45	64	46	10	-
Domestic use in Britain[d]	-	-	-	-	-	-	-	9 296	9 583	8 893	7 995	8 390	8 616	8 878	8 711	8 258	739
Animal feed	-	-	-	-	-	-	-	7 936	7 292	6 575	5 944	6 223	6 333	6 577	5 952	5 637	488
Industrial use	-	-	-	-	-	-	-	1 738	1 887	1 881	1 645	1 727	1 816	1 849	2 114	1 925	193
Exports from Britain[d]	-	-	-	-	-	-	-	232	346	622	1 106	916	2 291	1 252	1 113	2 297	289
Canadian exports[e]	709	992	1 012	455	1 404	3 823	4 429	3 864	2 639	2 668	4 166	3 782	3 171	3 519	4 083	3 574	-
% exported to United Kingdom	18	20	5	45	27	18	15	7	0.02	0.02	0.01	0.02	0.01	0.01	0.01	0.003	-

CORN																	
British imports[b]	-	-	-	-	-	-	-	3 660	3 456	3 327	3 441	4 219	3 595	3 579	3 156	2 823	2 195
From EEC[d]	-	-	-	-	-	-	-	138	657	947	703	1 465	506	738	-	-	-
From United States[b,c]	2 369	1 902	1 642	1 434	2 055	1 307	1 253	1 531	1284	649	1 119	2 512	2 134	2 121	2 018	1 746	-
Production in Britain[d]	-	-	-	-	-	-	-	6	6	3	3	2	3	2	-	-	-
Price ratio, barley/corn c.i.f. Rotterdam[e]	1.16	0.99	1.16	0.81	0.75	0.82	1.22	1.25	1.10	0.87	1.96	1.98	1.04	0.92	1.13	1.07	-

Sources: a. FAO, Production Yearbook for 1965-77, and Agra Europe, 10 July 1981 for 1978-81.
b. Eurostat, Yearbook of Agricultural Statistics, 1981, and Agra Europe, 10 July 1981, D/2 for 1978-81 and 23 October 1982, D/5.
c. Canada Grains Council, Canadian Grains Industry, Statistical Handbook for 1965-77, and Agra Europe, 10 July 1981, D/2 for 1978-81.
d. Eurostat, Yearbook of Agricultural Statistics, 1981.
e. US Department of Agriculture, "Weekly Roundup of World Production and Trade," FAS Release, Grain Facts.

Note: Data for production are for the crop year beginning 1 August and ending 31 July the following year. Dash (-)

previously enjoyed over non-Commonwealth countries. As a principal supplier, Canada immediately made official application for compensation under Article XXIV:6 of GATT for losses resulting from the drop in exports. Bilateral negotiations with the EEC resulted in an arrangement that became effective 1 April 1975 and granted Canadian cheddar a substantial tariff reduction, provided it was not sold at less than the minimum price negotiated. As of that date, Canadian exports became subject to a fixed tariff of 15 units of account (UA)/100 kg (18.74¢ kg), which was introduced gradually up to 1 January 1978 to prevent the high price guaranteed EEC producers from applying suddenly to the United Kingdom. This tariff constituted a reduction of 112 UA/kg in relation to the variable levy in effect in 1973 (Cohn, 1978: 125-143; Agra Europe, 3 July 1981: E/2-E/3).

Despite this arrangement, Canadian exports, for a variety of reasons, showed practically no increase. Canada was competing not only with the EEC countries, but also with New Zealand. A preferential tariff had been granted New Zealand for the period 1973-77 because of the extent to which its dairy industry had been adversely affected by the enlargement of the Community. It was not surprising, therefore, that New Zealand's exports, unlike those of Canada, remained relatively high until 1977 (Canadian Mission to the EEC, 1979: 40-45).

The real reason, however, for Canada's inability to recapture the bulk of its cheese market in Britain, notwithstanding the substantial tariff reduction and export subsidies granted by the Canadian government, is to be found in the effect of the Community's dairy policy on British imports (Agra Europe, 15 January 1982: D/1). The CAP had the effect, first, of diverting Britain's imports from Canada to the EEC, and second, of substantially reducing Britain's total imports by increasing its self-sufficiency. Between 1972 and 1979, as tariff barriers between Britain and the EEC came down, the share of British cheese imports originating in the Community gradually rose from 20.5 to 95 per cent, while total British imports declined from 151 thousand tonnes in 1972 to 116 thousand tonnes in 1980.

The Community's dairy policy operates as follows (Fennell, 1979: 137-142). Each year, a target price, generally higher than the world market price, is set for fluid milk. A threshold price is then fixed for

each of a dozen main types of milk products, termed 'pilot products.' On the pilot product cheese, a sufficiently high annual levy is imposed to prevent the price of cheese, and consequently the target price of fluid milk in the Community, from being driven down by an influx of cheese imports at prices lower than those sought on the EEC market. The effect of such a high-price policy has predictably been to reduce Britain's imports of cheese and to increase cheese production, though without any corresponding increase in consumption. Per capita consumption, already among the lowest in Europe, has in fact been declining since 1973, and it is only population growth that has averted a decrease in overall demand (see Table 4.5).

For many years, moreover, chronic surpluses of dairy products have been a crucial problem in the Community (as elsewhere). With a view to eliminating these, the Commission has made efforts to increase consumption and exports, while reducing production and imports as much as possible. It has subsidized powdered milk, for example, to enable it to compete with imported vegetable protein for use as animal feed (Agra Europe, 2 July 1982: P/2). It has also accepted the presence of Britain's Milk Marketing Board, which played a vital role in the country's dairy industry before 1973 and is now proving very effective in promoting consumption of dairy products in Britain (Lefebvre, 1978: 45). To improve trade, the Commission has introduced export subsidies to bring down the high prices of the Community's dairy products and make them more competitive on the international market. The EEC is thus becoming one of Canada's major competitors, not only on the world market, but even on the Canadian market. This export subsidy policy, which many countries consider unfair, is giving rise to protests almost everywhere, including Canada, the United States and Oceania. In 1980, however, Canada and the EEC agreed that cheese exported to this country from the Community would not be subsidized to the point of lowering its price below Canadian prices for the same varieties.

Finally, the considerable increase in Canadian exports since 1980 can be attributed to the favourable outcome for this country of the Tokyo Round of multilateral negotiations, which ended in 1979 (Agra Europe, 22 May 1981: M/5). The new agreement with the EEC provided for a special quota of 2750 metric tonnes for Canadian cheese aged at

TABLE 4.5: Cheese: Britain and Canada, 1966-80

(tonnes)

	1966	1969	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Production in Britain[a]	109	120	175	199	131	217	234	294	206	215	234	232
In the EEC[b,c]	-	-		-	2 669	2 871	2 919	2 969	3 139	3 252	3 390	3 484
British imports[b]	144	156	167	151	137	125	152	147	120	102	140	116
From EEC[c,e]	23.2	24.2	30.5	31.9	83.0	102.3	118.9	113.9	104.7	97.3	137.0	-
From Ireland[c,e]	12.6	17.6	25.7	23.4	36.7	42.9	55.7	53.3	38.1	42.1	62.9	36.2
From Holland[c,e]	16.4	14.4	17.7	19.9	29.3	24.0	26.5	22.2	23.3	18.9	26.5	20.5
From Denmark[c,e]	9.1	9.5	9.9	11.1	14.9	14.8	17.6	18.7	20.4	19.9	20.4	19.8
From France[c,e]	5.3	7.2	9.7	9.6	8.7	14.0	13.8	12.7	12.9	9.5	13.7	12.9
From New Zealand[c,e]	69.6	69.7	71.4	66.3	47.4	19.2	30.3	30.6	13.2	2.1	0.1	0
From Australia[c,e]	12.1	6.7	0	0	0	0	0	0	0	0	0	0
From Canada[c,e]	14.1	13.3	12.4	7.7	1.1	0.2	0.5	0.6	0.5	0.6	0.5	1.4
Domestic use in Britain[b,c]	-	-	-	-	323	327	346	336	304	320	344	345
Consumption (kg per capita)[d]	-	-	3.33	3.43	3.54	3.83	3.56	3.55	3.26	3.37	-	-
Production in Canada[f]	-	-	-	-	-	-	-	77	82	93	95	101
Canadian exports[g]			13.8	8.3	2.7	1.4	1.2	0.9	0.7	0.6	1.9	2.4
% exported to United Kingdom			90	93	41	14	42	67	71	100	99	58

Sources: a. FAO, Production Yearbook for 1966-80.
b. Eurostat, Yearbook of Agricultural Statistics, 1981.
c. Agra Europe, Special Report No. 8, EEC Dairy Policy and Markets in the 1980s, June 1981.
d. UN Economic Commission for Europe, Review of the Agricultural Situation in Europe at the End of 1978, volume II, Dairy Products and Eggs (New York, 1979).
e. UN trade statistics by countries and commodities.
f. Canadian Farm Economics, The Cheese Industry in Canada, August 1979.
g. Agriculture Canada, Trade Statistic Item 41.14.

Note: Dash (-) means not available.

least nine months. The tariff on this quota was fixed at 10 UA/100 kg, effective 1 January 1980. In exchange, Canada granted the EEC an import quota of 27 million pounds. Despite the recognized quality of Canadian cheddar, no one expects Canada's exports to Britain to exceed the EEC quota of 2750 tonnes in the near future, unless there are further negotiations (Government of Canada, 1979).

Exports Subject to Tariff or Granted Duty-free Entry

Oilseeds and Oilseed Products

Canadian exports of oilseeds and oilseed products were severely affected by Britain's entry into the Common Market.

Shipments of flaxseed, Canada's principal oilseed export to Britain, dropped (except in 1979) to half that of the three years preceding the enlargement of the EEC. The Canadian share of Britain's total imports held steady, however, at about 90 per cent, except for a decline in 1978 when Argentina dumped part of its surplus at a relatively low price. Apart from Argentina, only Holland can claim to have captured (more than once) a share of the British flaxseed market (see Table 4.6).

Canadian exports of oilseed products to Britain consist almost entirely of soybean oilcake and meal and small quantities of soybean oil. Exports of oilcake and meal never recovered significantly from a drop of nearly 50 per cent in 1974, despite a very considerable increase in Britain's total imports. Soybean oilcake and meal are excellent sources of protein in animal feed. Soybean oil is used for human consumption, as margarine and vegetable oil, and for industrial purposes, in the manufacture of clothing.

What caused this market drop in Canadian oilseed exports, particularly after 1975? First, and contrary to what occurred with barley, neither the variable levies and MCAs nor the increased self-sufficiency in the EEC and Britain brought about the decline, but rather the loss of the British Commonwealth Preference, on which Canada had depended in marketing this product. The European climate is not conducive to large-scale production of oilseeds, and the CAP mechanisms offer producers of these crops very little protection. The Community's common organization for vegetable oils and fats was set

TABLE 4.6: Flaxseed: Britain and Canada, 1970-80

(000 tonnes)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
British imports[a]	60.3	66.1	63.4	31.8	36.6	30.4	11.4	22.2	25.1	55.8	31.9
From Canada[b]	48.0	65.1	56.7	31.4	27.2	29.7	10.0	16.2	10.4	53.1	15.0
From EEC[b]	0	0.8	6.5	9.2	0	0	0	5.1	6.5	2.7	0
From Argentina[b]	0	0	0	0	0	0	0	8.1	0	0	0
Production in Britain	0	0	0	0	0	0	0	0	0	0	0
Canadian exports[c]	538	654	499	394	267	195	356	263	494	455	519
% exported to Britain	9	10	13	8	14	15	3	6	2	12	3

Sources: a. FAO, Trade Yearbook for 1970-80.
b. Agriculture Canada, Canada's Trade in Agricultural Products for 1970-80.
c. Canada Grains Council, Canadian Grain Industry, Statistical Handbook for 1970-80.

up in 1965-66, but it was extended to soybeans only in 1974, and flaxseed and soybean oil were not included until 1976.

The CAP mechanism for most oilseeds can be described as follows. The Community protects oilseed producers by guaranteeing them a target price for each of their products. These prices are usually slightly higher than world market prices. The producers then receive a deficiency payment corresponding to the difference between the target price and that offered at the Community frontier (Commission of the European Communities, 1981: 88; Fennell, 1979: 131-132).

The EEC tariff on imports of soybeans and soybean oilcake and meal has been set at zero since 1961 as a result of GATT agreements. When Britain entered the Community, Canada lost the preferential margins of 5 per cent for soybeans and of 15 per cent for soybean oilcake and meal (Agriculture Canada, 1975). The consequences have been disastrous because Canada had always imported soybeans in considerable quantity from the United States and processed them into unrefined and refined oil, meal and oilcake for resale to Britain, thus benefiting from its preferential margin. With the disappearance of the preference, it naturally became more profitable for the United States to process its own soybeans and export directly to Britain, with the result that between 1973 and 1975, Canada irretrievably lost part of its oilseed product market to the United States. The situation was particularly serious since in 1973 almost all Canadian exports of soybean oilcake and meal went to the United Kingdom. Although the proportion was around 40 per cent in 1980, Canada's total exports of soybean oilcake in that year reflected a drop from 113 thousand tonnes in 1973 to 78 thousand tonnes (see Table 4.7). Since much of the production had always been exported, the Canadian processing industry, according to an Agriculture Canada specialist, has suffered.

The situation was even more disquieting for exports to Britain of soybean oil for human consumption. In addition to losing the preferential margin of 15 per cent, Canada, which had enjoyed duty-free entry before 1973, was faced with the Community's ad valorem tariff of 15 per cent on refined oil and 10 per cent on unprocessed oil destined for consumption. On oil for industrial use, the ad valorem rates were 8 and 5 per cent respectively (Jabara, 1981b: 17). What was

TABLE 4.7: Oilseed Products: Britain and Canada, 1970-80

(000 tonnes)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Official production of vegetable fats and oils											
in Britain[a]	-	-	240	254	233	297	373	380	382	-	-
In the EEC[a]	-	-	-	3 489	3 286	3 832	3 536	3 774	4 069	-	-
Britain/EEC[a]	-	-	-	7	7	8	11	10	9	-	-
Change in stock	-	-	-8	-11	-9	16	42	55	59	-	-
Total British imports of vegetable fats and oils[b]	-	-	343	564	439	778	665	450	-	-	-
Total British imports of oilcake and meal[b]	314	416	319	292	344	299	241	303	488	670	671
From Canada[c]	158	130	126	110	110	70	76	56	64	57	31
Of soybean oilcake and meal[c]	150	121	87	96	102	57	60	34	42	22	24
Of flaxseed oilcake and meal[c]	7	2	5	2	0	0	0	0	0	0	0
Total British imports of soybean oil	41	45	32	27	21	8	12	20	52	74	62
From Canada	21	44	31	3	8	2	0	0	0	8	0
Domestic use of vegetable fats and oils											
in Britain	-	-	1 079	813	664	1 046	1 038	830	871	-	-
Total Canadian exports of oilcake and meal:											
Soybean oilcake and meal[c]	151	121	89	113	116	59	63	46	48	23	78
% exported to Britain	100	100	98	85	89	85	83	81	76	40	40
Flaxseed oilcake and meal[c]	14	13	18	6	0.1	0.2	4	5	6	5	9
% exported to Britain	53	18	27	36	0	0	0	0	0	0	0
Total Canadian exports of soybean oil[c]	21	44	31	3	8	2	0	0	1	10	14
% exported to Britain	100	100	100	100	96	100	0	0	0	81	0

Sources: a. Eurostat, Yearbook of Agricultural Statistics for 1972-1978.
b. FAO, Trade Yearbook for 1970-80.
c. Agriculture Canada, Canada's Trade in Agricultural Products for 1970-80.

Note: Dash (-) means not available.

more, imports of oil from countries covered by the Lomé Convention and from the Mediterranean countries were granted duty-free access to the EEC. Although few of these countries exported soybean oil, many were exporters of other kinds of oil, including olive oil, which also enjoyed duty-free entry and could serve as substitutes for soybean oil imported from Canada and the United States. Britain's total imports of soybean oil have risen considerably since 1978, but the increase has been of little benefit to Canada because of its inability to compete with the United States, or, in all probability, with the Lomé Convention or Mediterranean countries, though we have been unable to find statistical data to confirm this.

Canada has continued to be Britain's main supplier of flaxseed, despite the loss of the 10 per cent preferential tariff. In general, Canadian flaxseed has always proven to be very competitive with that of the United States and Argentina, particularly on the Japanese and EEC markets. Such has not been the case, however, with flaxseed oilcake and meal. The loss of the preferential tariff, coupled with the addition of a new tariff on linseed oil, has seriously affected Canadian exports of processed flaxseed.

Finally, why have Britain's total imports of oilseed products increased substantially since 1977?

The main reason is that grain prices in Britain increased very rapidly when the pound sterling rose above the green pound, with the result that imports of oilcake and meal, which were subject to relatively low fixed tariff barriers as compared with grain, were found to be excellent substitutes for the latter as animal feed. The high price of butter in comparison with margarine, meanwhile, served to increase imports of soybean oil for use in making margarine. It was unfortunate that Canada was not able to take advantage of the situation, which worked in the main to the benefit of the United States and developing countries associated with the Community.

Tobacco

In terms of value, tobacco ranks among Canada's principal agricultural exports. In 1971, approximately 98 per cent of Canadian tobacco exports went to Britain (see Table 4.8). They had increased very rapidly

TABLE 4.8: Raw Tobacco: Britain and Canada, 1966-80

(tonnes, dry weight)

	1966	1969	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
British imports[a]	118.5	138.5	121.9	135.0	148.8	164.3	142.6	144.2	142.3	233.0	187.2	124.4
From EEC[b,c]	2.0	2.1	2.6	3.2	3.7	7.8	8.0	5.1	4.3	7.3	7.6	6.6
From Holland	1.9	1.2	2.6	2.1	2.0	2.6	3.8	2.8	2.3	2.2	3.2	2.9
From Belgium	-	-	-	-	-	0.4	0.5	0.7	0.4	1.5	1.5	1.2
From Greece[b,c]	-	-	-	0.1	0.1	0.3	0.1	0.1	0.2	0.1	0.4	0.5
From Malawi	6.1	5.4	8.2	8.3	10.1	7.6	10.9	10.7	10.7	11.4	14.5	11.7
From Tanzania	1.5	3.4	3.6	4.0	5.2	4.3	4.9	6.8	6.3	7.1	7.7	2.8
From Zimbabwe (Rhodesia)	6.9	0	0	0	0	0	0	0	0	0	0	15.4
From India[b,c]	14.1	22.0	17.1	16.8	24.5	29.3	24.4	24.9	27.8	27.6	23.7	18.0
From Brazil	-	-	-	-	-	-	-	14.5	17.3	21.0	25.8	21.6
From South Korea	-	-	-	-	-	-	-	11.7	15.6	14.3	6.5	7.8
From United States[b,c]	10.0	61.1	44.3	54.7	57.5	47.3	39.7	35.2	23.5	98.1	54.7	17.1
From Canada	18.2	25.5	23.4	26.6	19.2	29.5	19.9	16.5	16.0	22.2	22.7	9.2
British exports[c]	-	-	-	-	-	-	2.8	3.7	0.7	43.3	-	-
Consumption of tobacco products in Britain[c]	-	-	122.4	130.5	137.4	137.0	137.6	130.6	125.9	125.2	124.3	121.5
Manufacturer's sales in Britain (in millions)[c]	-	-	-	-	-	-	-	140.3	137.6	148.7	146.1	149.8
Canadian exports[d]	-	-	23.8	29.1	29.0	33.8	27.3	26.4	23.4	32.6	38.7	19.5
% exported to Britain	-	-	98	91	66	87	73	63	68	68	59	47

Sources: a. FAO, Trade Yearbook for 1966-80.
b. UN trade statistics by countries and commodities.
c. Commonwealth Secreteriat, Tobacco Quarterly (London: Malbourough House) for 1966-80.
d. Agriculture Canada, Canada's Trade in Agricultural Products, item 121.

Note: Dash (-) means not available.

after 1966 as a result of the British embargo on Rhodesian tobacco (considered by some to be among the finest in the world). Before the embargo, Rhodesia, the United States, Canada and India were Britain's main suppliers. There was subsequently a gradual diversification, as British manufacturers were no longer prepared to be at the mercy of a few large producers.

Since 1969 Britain's total imports of tobacco have ranged between 122 thousand and 164 thousand tonnes, except for the years 1978 and 1979 when imports of 233 and 187 thousand tonnes, respectively, were recorded. Throughout this period, Canadian exports fluctuated in volume between 16 and 30 thousand tonnes, but in 1980 they suddenly dropped to 9.2 thousand tonnes. In addition, Canada's share of Britain's total imports of tobacco declined progressively from 20 per cent in 1971 to 7 per cent in 1980, to the benefit mainly of Brazil, India, countries under the Lomé Convention such as Malawi and Tanzania, and, with the lifting of the embargo in 1980, Rhodesia. (These calculations are based on Table 4.8.)

This downward trend in Canada's relative share of British tobacco imports is attributable mainly to the CAP tariff structure and, to a very slight degree, to the effect it has had on domestic production in the Community.

Although Italy, France, Holland, Belgium and latterly Greece are the only EEC countries producing significant quantities of raw tobacco, the Community has nevertheless seen fit to organize a common policy for tobacco because of its importance as a source of income in many disadvantaged areas. The main varieties of tobacco produced in the EEC are air-cured, burley and flue-cured. Among the EEC countries, only Italy is a net exporter. Britain, which does not produce tobacco, relies entirely on outside supplies. As late as 1975, some 95 per cent of British imports consisted of flue-cured leaves, since, until recently, the use of additives in the manufacture of cigarettes was prohibited by law, and their composition was almost 100 per cent flue-cured tobacco (European Documentation, 1978).

The common policy on tobacco, which was adopted only in April 1970, involves the fixing of a norm price somewhat similar to a target price high enough to guarantee producers a fair return and encourage

production of the best-selling varieties. The intervention prices, at which the intervention agencies must buy all the leaf tobacco offered to them, are fixed at 90 per cent of the norm price. Since this internal mechanism does not keep EEC prices above those in effect outside the Community (including the import tariff), the Commission pays a premium (deficiency payment) equivalent to the difference between the price of tobacco produced in the Community and that of imported tobacco (including the tariff).

The mechanisms in effect for tobacco at the Community's frontiers are not variable levies, but tariffs negotiated within GATT agreements (Fennell, 1979: 159-162; European Documentation, 1978: 9-15; Conseil des Communautés européenes, 1981). Before the CAP was established, each country had its own tariff structure. The Community did not have a common tariff on tobacco until 1 January 1968. As a result of the Kennedy Round negotiations, tobacco tariffs were reduced gradually over a five-year period ending in 1972. On the major variety that Canada exported to Britain (flue-cured), the tariff was then 23 per cent ad valorem for tobacco valued at less than 280 UA/100 kg, with a maximum of 33 UA/100 kg, and 15 per cent ad volarem for tobacco valued at more than 280 UA/100 kg, with a maximum of 70 UA/100 kg. When Britain joined the Common Market, Canada not only lost the 2 per cent preferential margin it had enjoyed in the British market as a Commonwealth country, but was faced with much higher tariff barriers than before. As a result of negotiations under Article XXIV: 6 of GATT, however, the Community granted a tariff reduction effective 1 January 1975 on tobacco valued at more than 280 UA/100 kg from 15 per cent ad valorem with a maximum of 70 UA/100 kg to 14 per cent with a maximum of 45 UA/100 kg.

Finally, during the Tokyo Round, the EEC consolidated its three existing tariffs into one and guaranteed a tariff not to exceed 30 UA/100 kg, as opposed to the rate of 45 UA/100 kg that had applied to the majority of Canadian exports to the Community. Although Canada has benefited from some tariff reductions since 1975, in no instance has it regained the special access to the British market it enjoyed formerly. Not only did Britain's entry into the Common Market mark the end of the British Commonwealth Preference, but it gave duty-free entry to

imports of raw tobacco from forty-eight countries. These included the forty-six signatories of the Lomé Convention, some of which, such as Malaysia and Tanzania, were important producers, as well as Greece and Turkey, which enjoyed bilateral agreements with the Community. In 1974, moreover, tobacco came under the Generalized System of Preferences applicable to most of the developing countries. Initially, the quota was fixed at 30 million UA, and the United Kingdom's share at about 80 per cent. India was probably the greatest beneficiary. Beginning in 1975, the quota was expressed in terms of volume to make it independent of price increases; it was increased to 30,000 tonnes, and Britain's share was reduced to 65 per cent. The last year for which we have found available data is 1976 (European Documentation, 1978: 11-12). Canada's competitive position on the British market was further weakened by the gradual abolition of tariffs on tobacco existing between Britain and the other members of the Community, which occurred in five stages between January 1973 and July 1977.

In light of all the tariff changes following Britain's entry into the Common Market, it is hardly surprising that Canada's share of British imports has continued to decline in comparison with that of some African countries, India, Brazil, the EEC countries and, to a lesser extent, the United States.

Another feature of the CAP that, as we will see, affected the tobacco trade in the EEC was the standardization in 1978 of excise taxes on tobacco within the Community.

Despite the loss of the British Commonwealth Preference, Canadian exports have remained competitive with those of the United States. This is perhaps because in the Canadian tobacco industry, most of the tobacco produced is grown in Ontario, where it has been regulated since 1957 under a supply management policy administered by the Ontario Marketing Board. This Board functions as the sole sales agent for tobacco, its aim being to increase producers' incomes by limiting production and thus keeping prices high. Since the bulk of Canada's production is exported, however, a price even slightly higher than that prevailing in the United States would be so damaging to Canadian exports that in practice the Board has no choice but to align its prices with international prices. When Britain's entry into the EEC

ended Canada's 2 per cent preferential tariff, therefore, the Board lowered its price to that of the United States; this explains how Canada has been able to compete with its powerful neighbour since 1975. A further reason for the competitiveness of Canadian tobacco is that it is generally better packed and graded than the American product. The continuing weakness of the Canadian dollar in relation to American currency during the past five years has also been a contributing factor (see Table 4.11).

The apparent decline in Canada's tobacco exports to Britain in 1978 and 1979 could be attributed to the sudden increase in total British imports of tobacco coupled with the comparative rigidity of Canadian supply in relation to the more flexible production system in the United States. US producers have the benefit of a price support program to which no quota is attached. One should also note that in 1978 and 1979, much of the tobacco shipped to Britain was destined not for the British market but for transshipment to other countries in the EEC. As a consequence of the standardization of excise taxes among the Nine in 1977 and the interaction of European currency exchange rates, it had become cheaper for Germany, for example, to import American tobacco via Britain than directly from the United States (USDA, 1980: 23). In this light, if we subtract from Britain's total imports of tobacco the quantities reexported, which rose from 0.7 thousand tonnes in 1977 to 43.3 thousand tonnes in 1978, we find that, strictly in terms of the British market, Canadian exports were not as severely affected as those of the United States, since Canada's share remained relatively high compared with previous years. There is no doubt, however, that imports destined exclusively for the British market were higher than usual in 1978 owing to the exceptional quality of North American tobacco crops, which apparently prompted manufacturers to replenish their stocks earlier than expected.

Reexports alone would not account for the continued rise in British imports at a time when consumption was steadily declining; intensive campaigns against the use of tobacco were under way, and increasingly heavy taxes were being levied on cigarettes. One factor that may have stimulated British imports of raw tobacco was the performance of the British tobacco-processing industries on outside

markets.

Accurate analysis of trade in tobacco with Britain is made difficult, however, by its inherent volatility and its susceptibility to such factors as adverse weather conditions in some countries and variations in exchange rates and prices from one country to another. The fact that leaf tobacco can be stored for several years without loss of quality or value, moreover, allows manufacturers to delay or advance their purchases quite easily depending on the quality of the annual harvests.

Since there are no official statistics on world tobacco stocks, such data being regarded by many companies as classified information, it is hard to predict the value of imports from year to year. Adding considerably to the uncertainty is the fact that the distribution of raw tobacco throughout the world is in the hands essentially of a few transnational companies, which are in a position to move enormous quantities of tobacco from one country to another for economic, strategic, political or other reasons.

Nevertheless, the drastic drop in Canadian and American exports in 1980 was attributable not so much to the factors enumerated above as to another hazard peculiar to the tobacco business, namely, the disease known as blue mould, which attacked the North American crops that year. In 1981, crops were partially destroyed, at least in Canada, by late frosts in the month of May. That year also saw an increase in the excise tax on tobacco, for which Britain compensated by substituting less expensive tobacco from Zimbabwe (Rhodesia) and Malawi for the Canadian and American products (Dieter and Lezio, 1982: 348).

Substitute or Residual Products

Meat: Edible Offals

Canadian exports of meat to Britain consist almost entirely of edible beef and pork offals, including livers, heads, feet, tails, kidneys, hearts, and tongues. These exports fell from 7.6 thousand tonnes in 1972 to 4.4 thousand in 1973, but gradually climbed to 27.4 thousand in 1981 (see Table 4.9).

What happened? Before 1973, edible offals entered the United

TABLE 4.9: Meat and Offals: Britain, 1972-80

(000 tonnes)

	1972	1973	1974	1975	1976	1977	1978	1979	1980
Meat									
Production in Britain[a]	-	2 821	3 046	2 989	2 951	2 945	1 986	3 154	3 165
In the EEC[a]	-	18 819	20 371	20 305	20 571	20 946	21 670	22 815	-
British imports[a]	-	2 864	3 128	3 081	1 232	1 297	1 390	1 391	1 134
From Canada[b]	21	23	13	8	8	10	16	18	29
Consumption in Britain[a,b]	-	4 054	4 174	4 110	3 993	4 037	4 193	4 314	4 225
British self-sufficiency (%)[b]	-	70	73	73	74	73	71	73	76
Offals									
Production in Britain[a]	144	-	151	171	151	146	146	154	163
British imports[b]	104	-	88	100	115	112	127	116	117
From Canada[b,c]	8	4	5	5	8	8	13	11	23
From Denmark[b]	-	-	-	9	10	13	15	14	-
From Ireland[b]	-	-	-	8	8	8	10	13	-
From New Zealand[c]	-	-	-	30	30	28	26	26	-
From United States[b]	-	-	-	34	32	40	33	32	-
From Australia[b]	-	-	-	21	18	18	13	8	-
Exports from Britain[b]	4	-	9	8	9	13	16	11	12
Consumption in Britain[b]	245	-	234	278	263	265	266	274	279
British self-sufficiency (%)[b]	59	-	68	62	57	55	55	56	58

Sources: a. Eurostat, Yearbook of Agricultural Statistics for 1972-80.
b. Economic Information Service, UK Meat and Livestock Statistics 1981.
c. Agriculture Canada, Canada's Trade in Agricultural Products, item 11-51, 52, 54, 55.

Note: Dash (-) means not available.

Kingdom duty free, and there was no preferential tariff in existence for these products. After Britain joined the Common Market, however, countries outside the Community became subject to the CAP barriers, which for most offals consisted of tariffs ranging between 10 and 14 per cent, depending on the product. Since 1980, as a result of GATT agreements, these have been between 4 and 7 per cent. Only a few edible offals are subject to variable levies (Conseil des Communautés européennes, 1981).

To understand the reason for the increase in Canadian exports of offals to Britain, it is important to have some knowledge of the CAP mechanisms for meat and of the particular situation existing in Canada in the meat sector, especially since 1979. Let us take pork as an example, to illustrate the effect of the CAP on the meat sector. Like most meat products in the Community, pork is subject to a variable levy aimed at protecting the EEC market against foreign imports. This policy is necessary to enable meat producers in the EEC to compete with foreign producers who can buy animal feed at much lower prices than those in effect in the Community.

The variable levy on pork in the EEC is made up as follows (Economic Information Service, 1982; Fennell, 1979: 137-154). A sluice-gate price serves as a minimum price at which exports of pork can enter the EEC market. This price comprises three elements: 1) the cost of grain, 2) the cost of other protein, and 3) the marketing costs to produce one kilogram of pork outside the Community under normal and efficient conditions (see Figure II). To the sluice-gate price is added a basic levy. This levy comprises three elements: first, the difference between the costs of producing one kilogram of pork in the Community and one kilogram in third countries, and second, an amount equal to 7 per cent of the sluice-gate price in effect over the preceding year, the purpose of which is to ensure a progressive increase in the price of meat and thus stimulate domestic production. Third, if for any reason (such as dumping), the variable levy at the Community frontier is not high enough to block imports of meat, the Commission reserves the right to add a supplementary levy, with the result that it is virtually impossible to penetrate the EEC meat market unless a particular country is allowed a specific quota for certain types of meat.

As might be expected, therefore, Canada's meat exports to Britain consist mainly of edible offals, which are almost the only items that escape the variable levy and are subject to relatively low tariffs. Since meat prices in the Community are closely related to grain prices, it is hardly surprising to find that Britain's total imports of meat have reflected a similarly drastic decline since 1977 in response to increasing protection in the EEC. Britain particularly has increased protection because the pound sterling has strengthened in relation to the green pound. High meat prices have resulted in increased production and reduced per capita consumption; Britain's self-sufficiency in meat has therefore climbed from 70 per cent in 1973 to 76 per cent in 1980 (Agra Europe, 13 February 1981: M/8). As with other commodities subject to fixed tariffs (such as pelleted screenings), Britain has increased considerably its total imports of offals as a substitute for comparatively higher-priced meat.

The substantial increase in Canadian exports of offals to Britain that began in 1980, to the detriment of New Zealand's trade, stemmed from a particularly heavy overproduction of cattle and hogs in Canada in 1979 and 1980. This resulted in lower prices for these commodities and for the offals derived from them and made Canada very competitive on international markets, particularly in view of the simultaneous decline in the Canadian dollar in relation to the pound sterling, which continued until 1981 (Agra Europe, 7 May 1982: E/6).

Animal Feeds

Approximately 90 per cent of the animal feeds exported by Canada consist of pelleted screenings. These are residues of wheat, barley and other grains that are left in grain elevators or transshipment ports. They are an economical substitute for grain and are used mainly as animal feed.

It is estimated that at least half the volume of these pelleted screenings is exported, particularly to the EEC, where, since 1975, grain prices have been higher than elsewhere in the world. Although the prices guaranteed meat producers in the Community under the CAP take into account the high cost of grain, the producers are never averse to reducing production costs and increasing their incomes by using

TABLE 4.10: Animal Feeds: The EEC, Britain and Canada, 1973-79

(000 tonnes)

	1973	1974	1975	1976	1977	1978	1979
EEC imports of certain grain substitutes[a]							
Cassava	-	-	-	-	3 801	5 976	5 375
Grain residues and pelleted screenings	-	-	-	-	2 198	1 949	2 014
British imports of certain grain substitutes[a]							
Cassava	-	-	-	-	5	12	21
Grain residues and pelleted screenings	-	-	-	-	237	281	251
From Canada	-	-	-	-	178	194	211
Canadian exports of grain residues[b]							
To Britain	90	138	186	194	178	194	211
To all countries	243	224	265	284	316	342	370
% exported to Britain	37	62	70	68	56	57	57

Sources: a. Agra Europe, 20 February 1981, M/8.
b. Agriculture Canada, Canada's Trade in Agricultural Products for 1973-79.

Note: Dash (-) means not available.

imported grain substitutes for which prices and tariff barriers are lower than those applying to grain. This is particularly true of certain grain substitutes, including soybeans, that enter the Community duty free or under a low tariff or variable levy. Residues from wheat, barley, corn and so on are subject to a levy equivalent to 25 per cent of that imposed on the grain from which they are derived.

Canadian exports of grain residues to Britain have risen considerably in recent years as a direct result of the high price of grain compared to grain substitutes (see Table 4.10). The strengthening of the pound sterling in relation to the green pound in 1977 accentuated the difference by causing grain prices to rise much more rapidly in Britain than elsewhere in the Community. The increase in Canadian exports of animal feeds to Britain, therefore, was not related to any exceptional increase in that country's meat production—which, as indicated in Table 4.9, remained relatively stable—but rather to the fact that the Community's high grain prices made pelleted screenings an

attractive substitute (Agra Europe, 12 March 1982 and 20 February 1981). As a result, Canada's exports of grain residues to Britain withstood even the loss of the 10 per cent preferential margin and the duty-free entry from which they had benefited before Britain entered the Common Market. Some time ago, however, France, the largest grain producer in the Community, made it known that it would refuse to participate in any discussion aimed at amending the CAP grain policy unless other member countries agreed to take steps to restrict imports of grain substitutes to a significant extent (Agra Europe, 14 August 1981: E/1-E/2).

TABLE 4.11: Rates of Exchange for British Pound Sterling, 1973-80

	EEC UA	$Can	$US	$Aus	$NZ	Argentine Peso
1973	2.16	2.45	2.45	1.76	1.84	12.30
1974	2.01	2.29	2.34	1.65	1.67	11.74
1975	1.76	2.26	2.22	1.71	1.83	44.61
1976	1.76	2.78	1.80	1.47	1.82	218.03
1977	1.70	2.86	1.75	1.60	1.80	695.00
1978	1.58	2.19	1.92	1.68	1.86	1 504.60
1979	1.62	2.49	2.12	1.90	2.07	2 794.15
1980	1.62	2.72	2.33	2.03	2.39	4 260.17

Source: Economic Information Service, EEC and World Prices for Meat and Livestock, European Booklet, 81/3, May 1981, pp. 20-21.

5: CONCLUSION

Much has been written since the early 1960s, in Europe and in the Commonwealth countries, about Britain's entry into the Common Market.

While this 'break' with the Commonwealth did not give rise to as much discussion in Canada as in Europe or Oceania, there was a sense of apprehension and uneasiness about the political and economic consequences the change would have for this country. It was expected in particular that Britain's membership in the EEC would have a detrimental effect on Canadian exports of farm products, at least in the short term. Were the fears justified? It would seem that they were and that the effect has in fact been more severe than anticipated. Was the drop in exports attributable solely, however, to Britain's entry into the EEC, that is, to Britain's adoption of the CAP and to the loss of the British Commonwealth Preference? That is the whole question, and this analysis cannot claim to have provided the answer. It has merely attempted to describe the negative, and also the positive, developments in Canada's principal exports to Britain, to point out the factors that have affected them the most, and finally, to analyse their individual dynamics.

There have been to date few studies assessing the effect of the CAP on international trade, and none appear to have dealt with the problem product by product. Although there is considerable material

from the early 1960s and 1970s, no one, to our knowledge, has recently attempted to assess the effect of Britain's entry into the EEC on Canadian agricultural exports in particular.

Studies of this kind are prone, however, to a serious flaw in that they almost invariably produce very different, and, indeed, even conflicting, results. A striking example is the current dispute between the EEC and the United States over which has the more protectionist agricultural policies. However rigorous may be the methods used in these studies, they rarely arrive at the same results.

There are two main reasons for these divergencies. First, in this type of analysis no one can evaluate the alternative scenario, and each study is accordingly developed on its own implicit or explicit hypothesis of what would have happened had there been no agricultural policy. Second, it is often very difficult to assess what actually happened. The existence of the variable levies under the CAP alone, for example, makes any calculation of the nominal or effective rate of protection of European agriculture an extremely difficult exercise. Data are sometimes non-existent, and the analyst is forced to rely on indicators that may or may not be accurate.

In addition to being difficult to calculate, these models based on the neoclassical economic theory of partial equilibrium have serious limitations because of their essentially static nature. In focusing on the tariff changes and the protection resulting from the CAP, for example, they exclude completely the dynamic factors that may affect international trade just as much. They overlook too readily the increased agricultural production that may result from the CAP in the form of greater specialization, better utilization of economies of scale, structural changes leading to accelerated modernization, and so on.

For all these reasons, we have elected to make use of Mayes' analytical model, which attempts to overcome these deficiencies by providing a framework that takes into account all the variables likely to affect the exports of a third country when one of its trading partners becomes part of an economic bloc. In Mayes's view, the variables that must be considered in any analysis of this kind are:

1. the economic activity prevailing in the exporting country (Canada)

2. the economic activity prevailing in the importing country (Britain)
3. the economic activity prevailing in third countries (the EEC and the United States in particular)
4. specific features of the trade between importing, exporting and third countries (CAP levy, loss of preferential tariff, GATT, Lomé Convention, GSP, and so on).

Chapter 3 dealt primarily with the first variable. We observed that Canada is one of the world's largest exporters of agricultural products, its major exports being grains and oilseeds, but that its position in world trade has declined in the past twenty years. Canada has not always been competitive with its major rival, the United States, particularly with respect to barley and oilseeds with a high value-added factor. In the British market, and in the European Community generally, Canadian agricultural exports have increased relatively slowly over the past fifteen years.

Following these observations, we formulated the hypothesis that the CAP is undoubtedly chiefly responsible for the slow growth of Canadian exports to the EEC, although Canada's lack of competitiveness with the United States with respect to certain commodities may also have been a contributing factor.

The other three variables, which in the case of the EEC are almost inextricably linked, were dealt with together in chapter 4.

With regard to the specific features of Canada's trade with Britain (variable 4), we pointed out that for this country Britain's joining the EEC meant 1) loss of the British Commonwealth Preference, 2) loss of duty-free entry of Canadian exports to Britain, 3) duty-free access to the British market for EEC products, and 4) establishment of a preference on the British market for countries with which the Community had already concluded agreements. Canada subsequently gained some tariff concessions from the Community for certain agricultural products under GATT agreements concluded in 1979.

In dealing with the economic activity prevailing in British and European agriculture (variables 2 and 3), we thought it appropriate to describe the role of the CAP and its protective mechanisms, suggesting by implication that the policy was not unconnected with the extensive developments in EEC agriculture since the mid-1960s. We pointed out

that while government intervention in support of farm incomes is common to all industrialized countries, agriculture has been accorded a special place in the EEC in that in addition to being developed as an important sector of the economy of the Community, a common policy is intended to pave the way for further European integration. Even today, the CAP is allocated up to 70 per cent of the total budget of the Community.

About 90 per cent of all agricultural production in the Community is covered by the CAP, and of this, approximately 70 per cent comes under the Community's price support and levy system, which applies to grain, dairy products, beef, veal, pork, some fruits and vegetables, and table wine. The ministers of agriculture meet every spring to set support prices for these commodities, often at levels higher than those in effect on world markets. These common prices are then converted into national currencies by means of the particularly complicated system known as the green rate. When the price of one of these products falls below the intervention price established each year, the Commission buys up all the stocks being offered on the EEC market below this price and stores them. The Community may then try to export these supplies with the aid of export subsidies. Finally, to keep the support price (target price or norm price as the case may be) higher than elsewhere, the Community imposes a variable levy that corresponds to some extent with the difference between the annually established support price (or the threshold price) and the lowest price offered at the Community frontier, which of course fluctuates from day to day. This levy, therefore, varies almost daily, and the higher the support price or the lower the world price, the more the CAP mechanism protects the product involved.

Exchange rates also come into play. The more a member country's currency is devalued in relation to its green rate, which applies exclusively to basic agricultural products, the lower will be the support prices and thus the level of protection in that country. This operation is made possible through the action of negative compensatory amounts on the country's intra-Community and extra-Community trade. With respect to extra-Community trade by a member country whose currency has been devalued, the Community's variable levy is

reduced for that country's imports, while its exports to third countries are taxed, thus eliminating the competitive advantage it gained through the devaluation of its currency. The same principle applies to intra-Community trade, except that in the absence of a variable levy between member countries, exports from within the Community to the country whose currency has been devalued are subsidized.

The reverse occurs when a currency is revalued. The country's intra-Community exports are subsidized, and its imports taxed. Subsidies become payable on its extra-Community exports, and a supplementary tax is added to the variable levy already in effect on its imports. The country is thus given increased protection. The CAP thereby succeeds in principle in maintaining a common price for the same product throughout the Community.

We noted that Britain's pound sterling reflected a continuing decline in relation to the green pound from 1973 to 1979, but that the government in office nevertheless refused to devalue the green pound. To protect consumers from increases in food prices, the country received negative MCAs throughout this period, as well as accession compensatory amounts (which corresponded to negative MCAs). During these years also, Britain's domestic agricultural policy was less protectionist than those of most other members of the EEC, though more protectionist than it had been before entry into the Common Market. In 1979, however, the pound sterling began a dramatic climb, which in 1980 carried it above the green pound. Since the Thatcher government would not countenance a corresponding revaluation of the green pound in order to gain maximum benefit from positive MCAs, that is to say, export subsidies and protection against imports, agricultural prices began to rise more rapidly in Britain than elsewhere in the Community, as did protection of British agriculture covered by the variable levy system.

This high degree of protection (and relatively high support prices) coupled with the disappearance of tariff barriers between member states and assistance under the CAP to encourage modernization has made the Community more than self-sufficient in products covered by the system, notably dairy products, sugar, chicken, barley, wheat, wine and pork. Although the Community is still the largest importer of

agricultural products in the world, particularly tropical commodities, it found itself in 1981, for the first time, in the position of exporting more grain than it imported. The CAP is now faced with enormous surpluses of many of these commodities, particularly dairy products, which are becoming increasingly costly to store as well as to subsidize as a stimulus to export: production continues to increase, while consumption remains stagnant. To prevent these vast surpluses, the CAP is now seeking to establish an export policy involving long-term contracts and to narrow as much as possible the existing gap between world prices and EEC prices.

As a result of these policies, the CAP has been strongly accused of disrupting world agricultural markets. By making use of foreign markets as residual markets and subsidizing its exports, the CAP caused an immediate drop in world prices and forced a number of traditional suppliers out of these markets. Today it is not so much the protectionism of the CAP that arouses the ire of the main exporting countries as its subsidizing of exports.

Approximately 30 per cent of the agricultural production covered by the CAP is not subject to the levy system. This segment comprises commodities in which the cost of Community self-sufficiency would be prohibitive, such as durum wheat, olive oil, tobacco, oilseeds and the like. Support prices are relatively low, and imports are subject to nominal fixed tariffs or enter the Community duty free. In exchange, farmers receive direct subsidies based upon their production.

In summary, the CAP has enabled Britain to attain an unprecedented level of agricultural self-sufficiency in temperate products covered by the levy system. It was for this reason that in chapter 4, we subdivided Canada's principal exports to Britain into three categories: 1) those subject to CAP levies—wheat, barley, cheese, 2) those subject to fixed EEC tariffs—oilseeds, oilseed products, tobacco, fruits and vegetables, and 3) those that can be described as substitute products, on which there is a comparatively small levy (as for pelleted screenings) or fixed tariff (as for edible offals).

In the first category, Canadian exports, with the exception of wheat, dropped almost to zero in 1973. There were two major reasons for this development. First, the common protection afforded by the

CAP deprived Canada of markets to the benefit of the member countries of the EEC. Second, the phenomenal increase in Britain's self-sufficiency, resulting mainly if not entirely from the CAP, drastically reduced imports of these agricultural products.

The loss of the preferential tariff adversely affected Canada's, exports of barley. In 1975-76, when poor crops in the EEC resulted in a massive increase in US shipments of barley and corn to Britain, Canada's exports reflected no significant increase. Moreover, Canada's exports have declined sharply since 1973, while British imports from other member countries have expanded substantially.

Although Canadian exports of wheat have not increased in absolute terms, they have nevertheless been gaining an ever-larger share of Britain's declining imports, compared not only to third countries but also to France. Canadian hard wheat, which is among the best, if not the best, in the world because of its exceptional quality, cannot be produced on a large scale in Britain or in the EEC.

Cheese exports to Britain dropped virtually to zero in 1973, leaving the industry somewhat in disarray, since 90 per cent of Canada's exports of cheese had gone to that market. As a principal supplier to Britain, Canada was able to invoke Article XXIV:6 of the General Agreement on Tarrifs and Trade in 1975 and thus obtained compensation. Canadian cheese, instead of being subject to levies, was accorded a reduced fixed tariff. However, since New Zealand obtained even better terms, and Britain very rapidly increased its self-sufficiency in cheese, Canada did not benefit a great deal. As a result of the Tokyo Round of multilateral negotiations under GATT, Canada obtained a further tariff reduction, but it was subject to a fixed quantitative limit and did little to compensate for the losses.

Products in the second category, those covered by the CAP but not subject to levies or to MCAs, benefited for the most part from tariff reductions that took effect in 1980. This was one reason for the subsequent increase in certain commodities, such as fruits and vegetables, which compensated to some extent for the losses of others.

Oilseeds are part of this category, and a number of them, such as flaxseed, soybeans, soybean and flaxseed oilcakes and meal, retained their duty-free status after Britain joined the EEC, although Canada

lost its preferential margin. While Canadian flaxseed maintained its share of the market, other oilseeds, and in particular oilseed products, lost a good deal of ground owing to their inability to compete with US exports. Large quantities of US soybeans had in fact previously been processed in Canada for shipment to Britain in order to take advantage of the preferential margin.

The situation was even more serious for soybean oil, since in addition to losing the preferential margin, Canada became subject to the higher CAP tariff and may even have had to face competition from countries under the Lomé Convention that produced olive oil.

Despite the loss of the 2 per cent preferential margin for tobacco, Canada remained competitive with the United States. The Canadian share of the British market, however, steadily declined as Britain turned to countries under the Lomé Convention, such as Malawi, Tanzania and Rhodesia, and to beneficiaries of the Generalized System of Preferences, such as India and Brazil. As with cheese, the reduced tariff granted as compensation did not restore Canada's preferred position on the British market. Exports have held steady, however, except for 1980 when Canadian crops were ravaged by blue mould.

In the third category of products, substitute commodities (pelleted screenings and edible offals) have shown a dramatic increase in recent years as a result of low EEC protection and the very high prices asked in the Community for the meat products they replace.

In summary, therefore, traditional Canadian agricultural exports have been severely affected by Britain's entry into the Common Market. Among the principal exports, the only commodities that did not register a sharp decline after Britain's entry were hard wheat and tobacco, and these have since grown at a rate slower than usual. Certain less-important commodities, however, have reflected a continuing increase, particularly grain by-products and those to which the 1980 tariff reductions applied.

Britain's adoption of the CAP, the loss of the preferential margin, and Canada's lack of competitiveness in certain commodities have all contributed to the decline in Canada's position as one of Britain's major suppliers. This trend has even been accelerated by the recent strengthening of the Canadian dollar in relation to the pound sterling.

Exports in 1982 registered a drop from those of 1981.

The performance of British agriculture following the adoption of the CAP has perhaps been the determining factor in the evolution of Canada's export trade with that country. Be that as it may, Canada will not focus in the future on the British market. For several years the Community itself has been a major world exporter of agricultural products, and it has begun to displace Canada from some outside markets. If a full-scale war of export subsidies were to develop between the Community and the United States, moreover, the repercussions would be very serious for Canada. The forthcoming admission of Spain and Portugal to the Community is much less a cause for concern than the threat of a trade war between the Community and the United States. There is every reason to fear that Canada's troubles with the CAP are not yet over.

NOTES

1. The CAP subsidizes certain exports, supporting domestic production with high support prices. Canada and the United States subsidize exports less frequently, choosing instead to support farm income mainly through deficiency payments systems of various kinds (see chapter 2).

2. Negative integration policies are those that consist simply of abolishing discriminatory measures between member countries; positive policies involve the establishment of institutions and agreements enabling member countries to influence national decisions, for example, the CAP, the European Agricultural Guidance and Guarantee Fund, the European Economic Commission, and the Council of the EEC.

3. For further particulars of CAP mechanisms, see Fennell, 1979: 103-171; Pearce, 1981: 20-31; European Documentation, 1982; and Josling and Pearson, 1982: 1-80.

4. When the market rate of exchange moves too far from the green rate, it is possible through negotiation to bring the green rate closer to the existing rate of exchange.

5. See Commission of the European Communities, "Orientations pour l'agriculture européenne" (Brussels, 23 October 1981).

6. See Dobson, 1972: 1-5; Lohoar, 1979: 1-9.

7. The Lomé conventions, like the earlier Yaoundé conventions, establish special relationships between the Community and a group of less-developed countries and territories, now numbering sixty-four, in Africa, the Caribbean and the Pacific area. Most of these were formerly colonial dependencies of one or another of

the member countries of the Community. See Commission of the European Communities, "Lomé II Dossier," The Courier, special issue, no. 58 (Brussels, November 1979), and European File (Brussels, 1982).

8. The nominal rate of protection on grain corresponds here to the ratio of the average variable levy of the country (including monetary and accession compensatory amounts) to the import price.

9. Here and throughout the text and tables, the word 'tonne' indicates the metric ton of 1000 kg.

APPENDIX

TABLE I: Canada's Exports of Agricultural Products to Principal Countries, 1945-81 (millions of dollars)

Calendar Year	Total	EEC[a]		United States	Japan	USSR	China	Other Countries
1945-49[b]	910	447	(417)	206	1	-	-	256
1950-54[b]	1 012	419	(275)	304	57	1	-	231
1955-59[b]	945	452	(291)	226	82	7	1	177
1960-64[b]	1 264	487	(302)	216	122	69	101	269
1965-69[b]	1 509	486	(291)	274	163	144	131	311
1955	801	400	(282)	133	70	0	-	148
1956	1 013	514	(320)	206	80	2	-	211
1957	909	440	(256)	239	84	9	-	137
1958	1 034	454	(296)	287	82	12	7	192
1959	970	450	(304)	217	93	11	-	199
1960	909	441	(289)	193	106	1	0	168
1961	1 193	492	(273)	225	119	13	120	224
1962	1 157	483	(295)	226	113	1	147	187
1963	1 359	506	(321)	223	133	15	104	378
1964	1 702	517	(332)	211	139	313	136	386
1965	1 594	553	(332)	274	143	190	105	329
1966	1 362	533	(308)	280	172	319	183	375
1967	1 483	507	(294)	244	184	124	89	335
1968	1 395	431	(270)	278	168	85	158	275
1969	1 211	406	(252)	293	145	4	120	240
1970	1 684	511	(275)	344	193	89	122	425
1971	1 993	632	(296)	332	232	115	193	489
1972	2 135	568	(280)	362	279	268	230	432
1973	3 004	705	(328)	549	539	285	192	734
1974	3 860	942	(406)	530	686	17	340	1 345[c]
1975	3 988	844	(351)	490	740	377	310	1 227[c]
1976	4 012	904	(382)	574	780	472	144	1 138[c]
1977	4 327	908	(344)	695	757	289	314	1 364[c]
1978	4 730[d]	923	(432)	782	807	343	350	1 575[c]
1979	6 047[d]	1 342	(507)	1 007	1 089	444	414	1 751[c]
1980	7 718[d]	1 282	(491)	1 113	1 025	1 297	531	2 470[c]
1981	8 783[d]	1 383[e]	(618)	1 269	1 345	1 761	713	2 321[c]

Source: Agriculture Canada, Canada's Trade in Agricultural Products (Ottawa, 1982).
Note: Dash (-) means not available.

a. Bracketed figures are for exports to Britain.
b. Data are the averages of these periods.
c. Includes increased wheat shipments.
d. Excludes cornmeal and flour, malt oatmeal and rolled oats, and wheat flours except hard spring wheat flour.
e. Includes Greece.

TABLE II: Canada's Total Exports and Exports of Agricultural Products to the United Kingdom by Major Groupings, 1967-76
(thousands of dollars)

Commodity	Average 1967-71	1972	1973	1974	1975	1976
All commodities	1 266 971	1 369 546	1 587 573	1 911 943	1 766 455	1 831 763
Agricultural products	277 478	279 570	327 645	405 991	345 820	372 019
Grains[a]	119 901	120 695	144 943	218 485	204 529	212 221
Wheat	100 649	96 019	138 677	208 226	203 303	200 768
Barley	18 870	23 111	5 776	8 793	-	9 903
Grain products (for human consumption)	6 514	5 418	4 077	6 008	3 799	3 063
Wheat flour	5 152	3 684	1 389	1 985	627	65
Animal feeds	5 962	10 273	10 071	15 742	12 851	17 431
Oilseeds	12 349	13 238	18 082	15 607	6 375	4 283
Flaxseed	7 674	5 563	13 016	14 406	5 079	1 061
Oilseed products	24 215	24 649	23 421	23 487	13 812	12 886
Oilcake and meal	15 112	11 724	18 539	16 349	10 311	12 674
Soybean oil	6 382	8 476	1 214	5 375	1 288	-
Animals, live	120	685	1 409	622	189	335
Meats	5 009	5 579	9 205	5 256	3 947	5 667
Edible offals	4 163	4 222	7 455	4 714	3 612	5 493
Other animal products	12 689	13 154	19 877	17 858	10 943	13 227
Tallow	3 362	2 779	6 040	5 467	1 736	2 681
Dairy products	12 444	11 366	2 041	207	1 347	1 595
Cheese	11 960	11 328	2 028	186	1 312	1 422
Poultry and eggs	91	1 026	229	252	142	197
Fruit and nuts	4 388	2 258	4 377	2 860	1 797	1 528
Apples, fresh	2 447	861	1 935	367	459	656
Vegetables (excluding potatoes)	17 179	18 812	32 813	28 159	22 803	37 682
Canned vegetables and juices	8 041	4 256	7 764	4 524	3 885	6 031
Potatoes and products	2 268	287	3	12	3 289	7 760
Seeds for sowing	1 742	2 310	3 904	3 758	1 844	3 005
Maple products	42	183	27	7	55	62
Tobacco, raw	48 514	44 641	47 585	62 574	54 690	43 386
Tobacco, bright, flue-cured	48 230	44 324	45 941	57 852	50 891	40 683
Vegetable fibres	37	229	474	20	16	21
Plantation crops	427	20	104	63	18	17
Other agricultural products	3 591	4 747	5 003	5 014	3 374	2 653
Honey	1 021	921	1 533	1 258	489	451

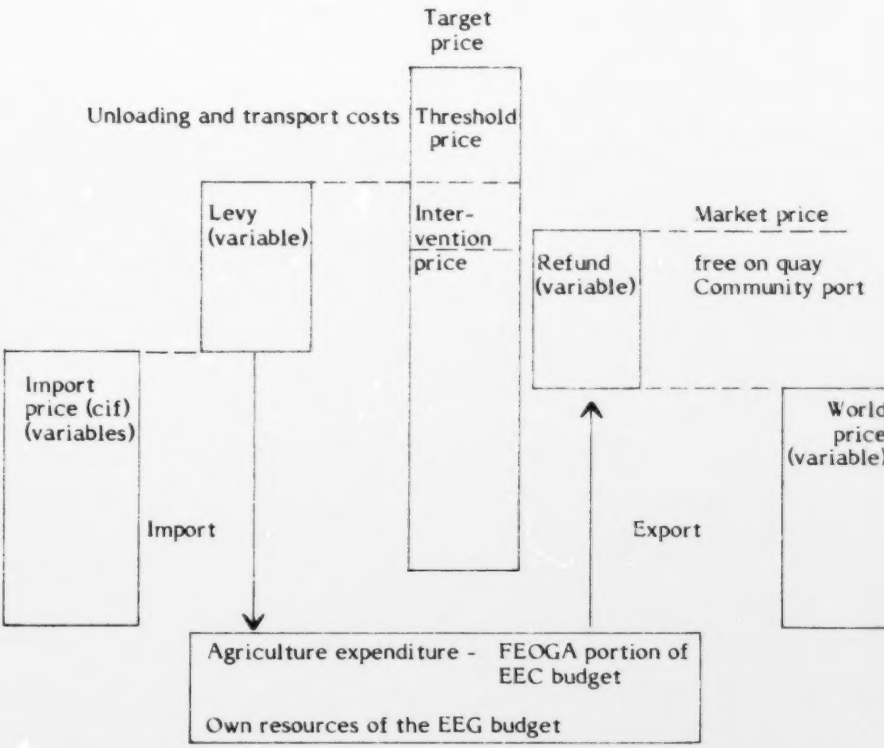
Source: Agriculture Canada, Canada's Trade in Agricultural Products (Ottawa, 1982).
Note: Dash (-) means not available.
a. Excludes seed wheat and seed oats (included in seeds for sowing).
b. Excludes oilcake and meal (see oilseed products).

TABLE III: Canada's Total Exports and Exports of Agricultural Products to the United Kingdom by Major Groupings, 1972-81
(thousands of dollars)

Commodity	Average 1972-76	1977	1978	1979	1980	1981
All commodities	1 710 889	1 929 187	1 985 490	2 538 834	3 187 045	3 329 040
Agricultural products	349 249	344 327	431 686[a]	506 671[a]	490 778[a]	618 163[a]
Grains[b]	130 873	187 020	262 705	271 410	288 910	353 432
Wheat	170 093	177 549	245 969	263 142	284 615	352 957
Barley	9 516	6 594	5 716	7 404	2 027	-
Grain products (for human consumption)	4 527	4 219	2 982[a]	2 545[a]	3 178[a]	4 218[a]
Animal feeds[c]	13 286	17 079	13 257	23 904	30 714	34 950
Oilseeds	11 537	5 684	3 684	17 465	9 051	19 277
Flaxseed	7 845	3 903	2 972	11 517	4 083	13 897
Oilseed products	19 651	11 582	15 424	13 444	8 750	10 592
Oilcake and meal	13 919	10 116	14 020	12 984	8 723	8 986
Soybean oil	3 270	-	-	250	-	-
Animals, live	648	2	9	49	620	960
Meats	5 945	5 293	8 743	14 818	19 551	21 790
Edible offals	5 111	4 831	8 383	13 263	16 771	18 669
Other animal products	16 177	23 779	25 773	28 543	29 426	26 737
Tallow	3 851	5 729	6 147	7 251	5 124	1 700
Dairy products	3 314	1 432	1 315	708	5 961	15 458
Cheese	3 257	1 311	1 064	685	5 884	15 247
Poultry and eggs	369	399	117	75	237	1 052
Fruits and nuts	2 613	1 899	4 216	4 912	7 450	17 071
Apples, fresh	870	800	1 803	1 568	3 9[illegible]	13 174
Vegetables (excluding potatoes)	29 577	35 416	17 495	33 986	39 186	34 882
Dried peas and beans	16 826	19 917	5 043	11 727	15 227	14 253
Potatoes and products	2 280	3 227	734	1 922	1 080	20
Seeds for sowing	2 999	2 761	3 140	4 828	4 535	3 201
Maple products	70	40	129	134	348	233
Tobacco, raw	50 958	42 146	67 713	83 706	36 347	67 006
Tobacco, bright, flue-cured	39 452	40 194	64 520	80 630	34 413	63 008
Vegetable fibres	152	72	16	-	92	9
Plantation crops	47	28	130	26	20	-
Other agricultural products	4 226	2 249	4 084	4 191	5 322	6 775
Honey	930	344	524	345	1 368	562

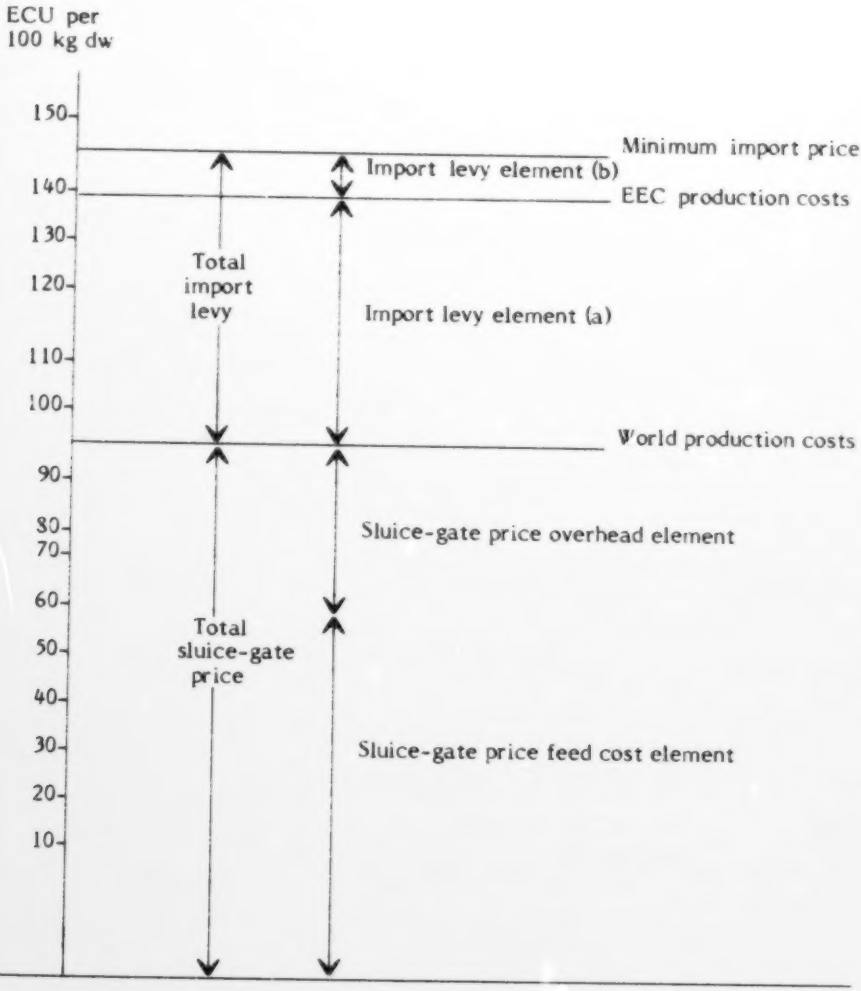
Source: Agriculture Canada, Canada's Trade in Agricultural Products (Ottawa, 1982).
Note: Dash (-) means not available.
a. Excludes cornmeal and flour, malt, oatmeal and rolled oats, and wheat flours except hard spring wheat flour.
b. Excludes seed wheat and seed oats (included in seeds for sowing).
c. Excludes oilcake and meal (see oilseed products).

FIGURE I: The Levy and Refund System for Wheat in the EEC



Source: European Communities-Commission, The Agricultural Policy of the European Community, 3rd ed. (Luxembourg, 1983).

FIGURE II: The Import Levy and Sluice-gate Price System for Pig Carcases in the EEC, in August/October 1979



Source: Economic Information Service, "CAP– Pigmeat: An Explanation of the CAP Pigmeat Regime," MLC, European Booklet, July 1982.
Note: dw = dressed carcass weight.

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